Exhibit A

Junior COFINA Rating Changes

Thursday, December 20, 2018
5:34 PM

Moody's Underlying LT

Rating	Watch	Outlook	Effective Date
Ca			Current
Ca			07/01/2015
Caa3			05/21/2015
Caa1			02/19/2015
B1			07/01/2014
Baa2			02/07/2014
	Negative		12/11/2013
A3			07/18/2012
	Negative		04/17/2012
A1			04/16/2010
A2			06/23/2009

Close

S&P Bond Rating

Rating	Watch	Outlook	Effective Date
NR			Current
NR			03/02/2018
D			06/13/2017
CC		Negative	09/10/2015
CCC-	Negative		07/20/2015
CCC-		Negative	06/29/2015
CCC+	Negative		04/24/2015
B		Negative	02/12/2015
BBB-		Negative	07/11/2014
A+	Negative		06/27/2014
A+		Negative	09/30/2013
A+		Stable	05/18/2009

Close

Close

Fitch Bond Rating

Rating	Watch	Outlook	Effective Date
D			Current
D			07/03/2017
C	Negative		06/24/2016
CC	Negative		06/29/2015
B	Negative		03/26/2015
BB-		Negative	07/09/2014
A+		Stable	04/05/2010
A		Stable	05/20/2009

Close

8.23.18 Moodys COFINA Outlook change

Tuesday, December 18, 2018
12:34 PM

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's revises outlook for COFINA senior-lien bonds to positive, sub-lien bonds to stable from negative; Ca ratings affirmed

23 Aug 2018

New York, August 23, 2018 -- Moody's Investors Service has revised the outlook of the Puerto Rico Sales Tax Financing Corporation's (COFINA) senior-lien sales tax revenue bonds to positive and subordinate-lien bonds' outlook to stable, removing both from negative outlook. Concurrently, Moody's has affirmed the Ca ratings on both the senior and subordinate-lien bonds.

RATINGS RATIONALE

On August 8, 2018, COFINA, certain of its creditors, the Commonwealth and the Financial Oversight and Management Board (FOMB), and the Puerto Rico Fiscal Agency and Financial Advisory Authority announced an agreement in principle on a settlement that would resolve the COFINA restructuring case. If implemented, the settlement could lead to higher recoveries for senior-lien COFINA creditors than the 35% to 65% range reflected in the current Ca rating, and recoveries for subordinate lien creditors in line with the Ca recovery range.

Affirmation of the Ca ratings, however, reflects the still-substantial uncertainty surrounding ongoing negotiations. Final terms have yet to be released and affordability of the settlement remains an open question. In addition, other creditors, in particular those holding general obligation bonds, might challenge the settlement and the Title III court will need to sign off on the final agreement before it can be enacted.

The Ca ratings also incorporate fundamental factors of the underlying sales tax revenue pledge on the currently outstanding debt, including a weak economic base, high revenue volatility and high leverage based on a steeply escalating debt service structure for the current bonds. These factors are outweighed by the bonds' ongoing payment default status, restructuring discussions and recovery expectations.

RATING OUTLOOK

Initial recovery estimates under the terms of the in-principle COFINA restructuring, in concert with approval from key players in the ongoing negotiations, support the revision of senior-lien bonds' outlook to positive. Creditor recoveries could exceed the current recovery range expected for a Ca-rating, which is 35% to 65% of original debt service.

Subordinate-lien creditors are expected to receive less than senior creditors. The preliminary terms suggests their recoveries will fall within the range consistent with the Ca rating, supporting a stable outlook.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Any federal court rulings or actions by the US government or the federal oversight board for Puerto Rico that materially improve bondholder recovery prospects versus currently anticipated levels

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Federal court actions that approve a plan of adjustment in which bondholders would receive lower recoveries than anticipated

- Economic or revenue trends that will undermine the creditworthiness of new securities that bondholders would receive to effect a restructuring under a plan of adjustment

LEGAL SECURITY

COFINA bonds are backed by a pledge of sales tax revenue collected in Puerto Rico. The bonds have been in default since July 1, 2017, because of a court order that requires the trustee to withhold payment of debt service.

USE OF PROCEEDS

Not applicable.

PROFILE

The Sales Tax Financing Corporation was created by statute in 2006 to issue securities backed by an allocation of sales tax collected in Puerto Rico (Ca negative). Puerto Rico is the largest US territory, with population estimated at 3.3 million as of July 1, 2017, and 2017 GDP of $77 billion.

METHODOLOGY

The principal methodology used in these ratings was US Public Finance Special Tax Methodology published in July 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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4.5.17_Moodys COFINA

Tuesday, December 18, 2018
12:53 PM

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
5 April 2017

Update

Rate this Research

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Commonwealth of Puerto Rico

Update: Moody's Downgrades $13 Billion of Puerto Rico Bonds, Revises Outlook to Negative from Developing

Summary Rating Rationale

Moody's Investors Service has lowered the ratings on debt of the Government Development Bank and five other Puerto Rico issuers, with a total of approximately $13 billion outstanding. The commonwealth's outlook, and the outlooks for seven affiliated obligors[1] linked to the central government, have been revised to negative from developing.

Exhibit 1

Summary of downgraded debt types

Downgraded Debt	From	To		Outstanding
Puerto Rico Industrial Development Company	Caa3	Ca	$	156,000,000
Government Development Bank for Puerto Rico	Ca	C	$	4,126,000,000
Employees Retirement System	Ca	C	$	3,156,000,000
Puerto Rico Infrastructure Financing Authority	Ca	C	$	1,781,000,000
Highways and Transportation Authority (excluding 1968 Resolution)	Ca	C	$	3,432,000,000
Puerto Rico Convention Center District Authority	Ca	C	$	386,000,000
Total			$	13,037,000,000

Sources: Moody's Investors Service, Puerto Rico Fiscal Agency and Financial Advisory Authority.

The downgrades and outlook revisions reflect persistent pressures on Puerto Rico's economic base that indicate a diminishing perceived capacity to repay. While we continue to believe that essentially all of Puerto Rico's debt will be subject to default and loss in a broad restructuring, the securities being downgraded face more severe losses than we had previously expected, in the light of Puerto Rico's projected economic pressures. For this reason, we downgraded to C from Ca not only the senior notes issued by the now defunct Government Development Bank, but also bonds issued by the Puerto Rico Infrastructure Financing Authority and backed by federal rum tax transfer payments, the Convention Center District Authority's hotel occupancy tax-backed bonds, the Employees Retirement System's bonds backed by government pension contributions, and the 1998 Resolution bonds of the Puerto Rico Highways and Transportation Authority. In addition, we have lowered the rating on the Puerto Rico Industrial Development Company's commercial property rent-secured bonds to Ca from Caa3.

We also have affirmed ratings on securities for which we believe ratings are still consistent with likely bondholder recoveries: general obligation and guaranteed debt (Caa3); Sales Tax Financing Corporation, or COFINA (Caa3 senior, Ca subordinate); Puerto Rico Aqueduct and Sewer Authority (Caa3); University of Puerto Rico (Ca) system and facilities bonds; the Municipal Finance Agency (Ca); the 1968 Resolution bonds of the Highways and Transportation Authority (Ca), and the Public Finance Corporation (C).

Please click on this link [http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM195266] for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

Credit Strengths

- Political and economic links to the US, with the benefit of the nation's strong financial, legal, and regulatory systems
- Creation of a federal oversight board with broad legal powers and a mandate to achieve balanced financial operations, economic recovery and renewed market access, while respecting lawful debt priorities and liens

Credit Challenges

- Extremely high government debt burden relative to deteriorating economic base
- Minimal internal liquidity and loss of market access to restore cash
- Economic weakness caused by shrinking manufacturing sector, exacerbated by recurring population loss in recent years
- Large unfunded pension liabilities relative to revenues, even after efforts at reform

Rating Outlook

The negative outlook is consistent with ongoing economic pressures, which will weigh on the commonwealth's capacity to meet debt and other funding obligations, potentially driving bondholder recovery rates lower as debt restructuring efforts proceed.

Factors that Could Lead to an Upgrade

- Any negotiated agreements or judicial actions that point to stronger bondholder recoveries than indicated in current ratings
- Increases in federal government assistance, under existing or new programs, that would materially improve bondholder recovery prospects

Factors that Could Lead to a Downgrade

- Unilateral actions by the commonwealth's federal oversight board or by a judicial authority that point to decreased bondholder recoveries
- Negotiated restructuring efforts that are likely to reduce bondholder recoveries
- Protracted legal confrontations during which payment of debt service is suspended

Key Indicators

Exhibit 2

(Millions)		2012		2013		2014		2015		2016
Governmental Funds Revenues	$	15,812	$	15,986	$	17,564	$	17,735	$	17,783
Governmental Funds Expenditures	$	21,036	$	19,595	$	21,368	$	20,883	$	20,870
Deficiency of Revenues vs Expenditures	$	(5,224)	$	(3,610)	$	(3,804)	$	(3,148)	$	(3,087)
Total Public Sector Debt	$	70,000	$	70,000	$	72,000	$	71,000	$	68,654
Reported Pension Liabilities	$	37,018	$	33,684	$	43,638	$	48,786		n/a
Population		3,634,488		3,593,077		3,534,874		3,473,181		3,411,307
Economic activity (GNP)	$	68,086	$	68,945	$	68,798	$	69,570	$	70,135

Sources: Puerto Rico Fiscal Agency and Financial Advisory Authority; US Census Bureau; results for 2015 and 2016 are preliminary and unaudited

Recent Developments

On December 18, the commonwealth filed an updated "Financial Information and Operating Data" report. The report included the projection that the Puerto Rico Employees Retirement System (ERS), the government's largest pension plan, would deplete its liquid assets by either the end of June or the end of December 2017, depending on the government's pension contributions.

Ricardo Rosselló Nevares was inaugurated as Puerto Rico's 12th governor on January 2, 2017. Governor Rosselló is a member of the pro-statehood New Progressive Party (PNP) who previously worked as a stem-cell researcher and is the son of Pedro Rosselló, the commonwealth's governor from 1993 to 2001.

On February 3, Governor Rosselló signed legislation authorizing a plebiscite this June on Puerto Rico's relationship with the US. Voters will be asked to agree either with a statement favoring statehood or with another, favoring a move in the direction of independence. If the statehood option prevails, the governor will designate a team to negotiate transition with the US. If non-statehood option prevails, a second vote (in October) will clarify what the move toward independence would entail. Statehood would be subject to approval by the US Congress, which has control of territories under the federal constitution.

On March 13, the Financial Oversight and Management Board for Puerto Rico certified a fiscal plan for Puerto Rico from fiscal 2017 (the current year) through fiscal 2026. The certification of this plan is required under the Puerto Rico Oversight, Management and Economic Stability Act, which created the oversight board. Budgets as well as eventual judicial or out-of-court debt restructurings must be consistent with the certified fiscal plan.

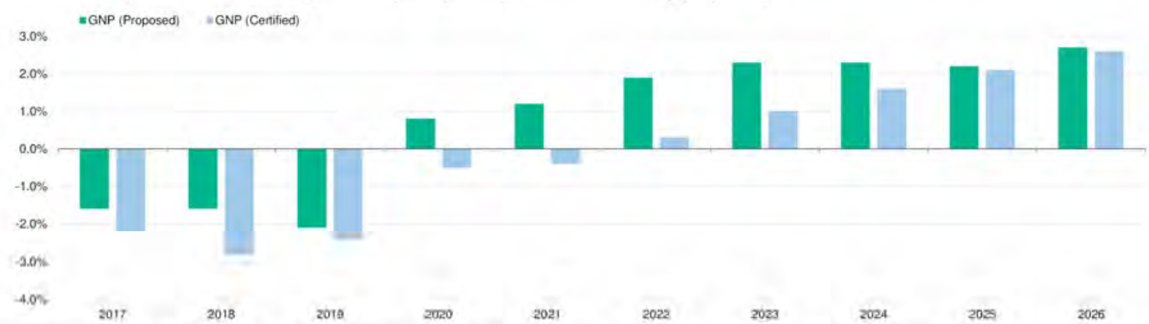
Detailed Rating Considerations

Economy

Forecasts for Puerto Rico's economy will be an important factor in determining bondholder recoveries that result from a broad restructuring, which in our view will most likely occur through a US District Court proceeding. The government's perceived capacity to repay bondholders will be based in part on the trajectory of its economy. The passage of PROMESA provided a clear legal framework for restructuring the commonwealth's debt burden, and it requires that any approved restructuring be consistent with a fiscal plan certified by Puerto Rico's federal oversight board. The plan certified in March suggests a sharper and more prolonged economic contraction, as well as persistent population loss due to out-migration. It incorporates projected nominal GNP declines through fiscal 2021. The declines include a 2.8% drop in the coming fiscal year caused largely by reductions in government expenditure reductions that will be mandated by the fiscal plan. While the projected GNP declines ease substantially in fiscal 2020 and 2021, they are more severe and protracted than anticipated in the plan proposed by the governor at the end of February, as shown in Exhibit 4.

Exhibit 3

Certified fiscal plan included weaker growth trajectory than government's initially proposed plan



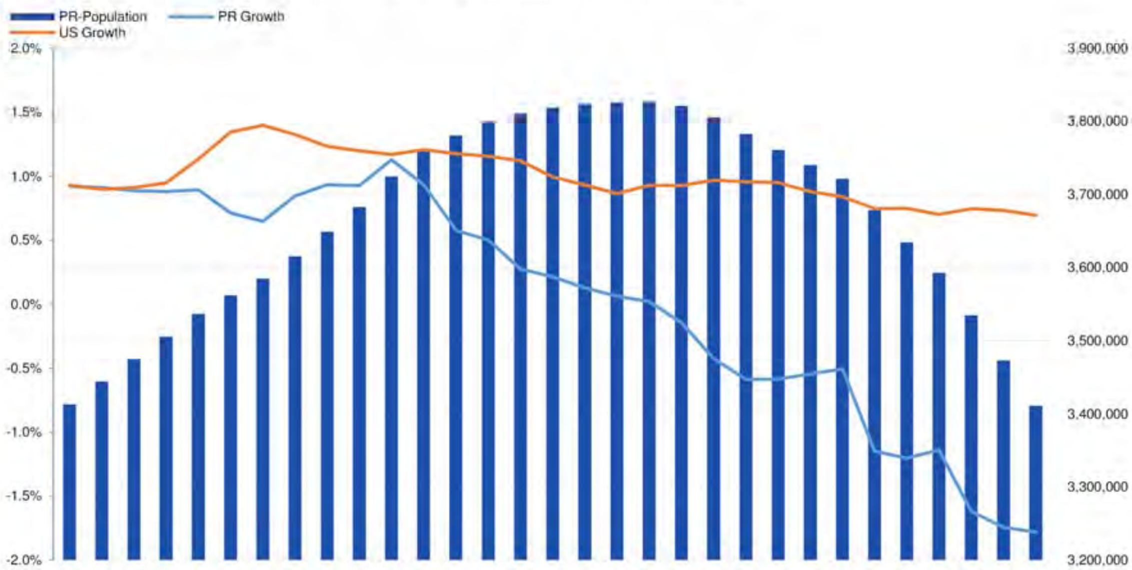
Source: Sources: Puerto Rico Fiscal Agency and Financial Advisory Authority, "Fiscal Plan," February 28, 2017, and "Fiscal Plan for Puerto Rico," March 13, 2017

The certified fiscal plan assumes that Puerto Rico's population will keep falling at a modest but steady rate of 0.2% per year, leaving the population at approximately 3.34 million in 2026. This would reflect a continuation of one of the commonwealth's more problematic long-running trends the migration of workers to the mainland in search of jobs. Population has fallen from a peak of 3.83 million in 2004, as shown in Exhibit 5. The first years of population declines coincided with the end of a 10-year phase-out of Section 936 federal

tax benefits, in 2006. The benefits had encouraged US manufacturers, particularly pharmaceutical companies, to locate facilities in Puerto Rico.

In addition to the better economic opportunities on the mainland, negative quality-of-life factors in the territory may be playing a role in encouraging an exodus: elevated crime rates, limited access to medical care and heightened exposure to disease. The commonwealth has long suffered from dramatically lower wealth indicators than the mainland, and those measures have not shown significant improvement. The territory's personal income per capita is only 39% of the US level, while its 46% poverty rate is triple the nation's 14.7%. Despite chronically low labor force participation (at about 40% compared with 60% for the nation), Puerto Rico's unemployment rate is also more than double the nation's (about 12% in 2016 compared with the 4.9% for the nation).

Exhibit 4
Population has fallen for 12 years, by a total of 11%, in a period when US trends remained positive.



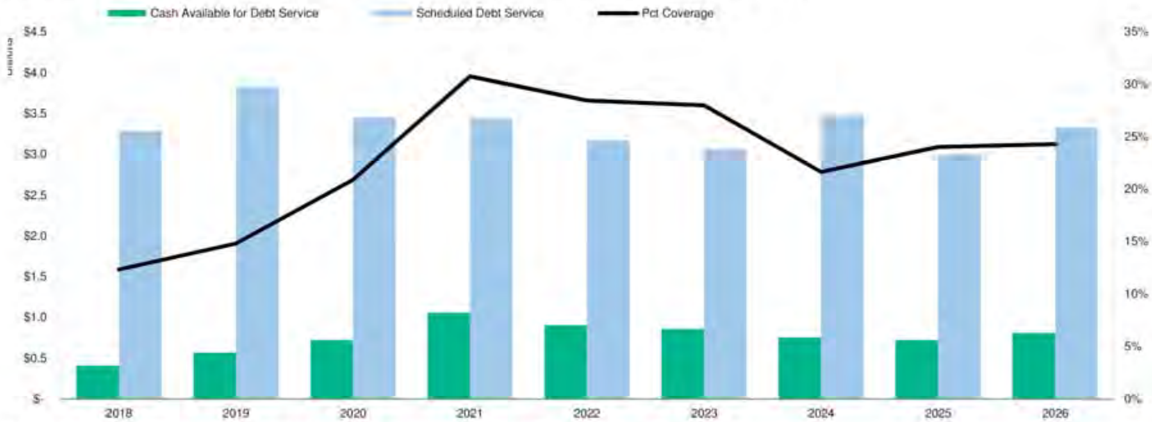
Source: United States Census Bureau

Finances and Liquidity

The certified fiscal plan shows that Puerto Rico, consistent with its weakening economic performance, will face declining revenue during the next two fiscal years. At the same time, operating expenses will rise. Even before factoring in debt service obligations, the government's expenses will exceed revenues by $1.47 billion (or 8.4%) in fiscal 2018 and by $2.8 billion (or 17%) in fiscal 2019. These shortfalls are projected to grow every year through the fiscal plan's end, in 2026, when they will reach $4.8 billion, or 27%. The fiscal plan calls for revenue-raising and expenditure-reduction measures that would free up funds for debt service during the period covered by the plan. Even assuming these measures perform as expected, cash available for scheduled debt service will fall far short of the amounts required, as shown in Exhibit 6. Cash available each year averages only 23% of scheduled debt service, according to the fiscal plan projection. Total debt service averages $3.3 billion during period.

Exhibit 5

Available operating cash covers only 23% of scheduled debt service from fiscal 2018 through 2026



Source: Puerto Rico Fiscal Agency and Financial Advisory Authority: Fiscal Plan for Puerto Rico, March 13, 2017

Puerto Rico relies heavily on various corporate taxes, including a tax on earnings of US based manufacturers under its local Act 154, which accounts for about $2.1 billion, or 23%, of fiscal 2017 general fund revenues. Corporations have been allowed to deduct Act 154 payments made to Puerto Rico from their federal tax liabilities, but the arrangement has never been formally authorized by the US Treasury. The fiscal plan contemplates that Act 154 collections will decline significantly as the commonwealth implements corporate tax reforms by January of 2019. The positive budgetary impact of those planned corporate tax reforms (which include reducing tax exemptions) is projected to grow from $519 million in fiscal 2019 to $1.04 billion in fiscal 2026.

LIQUIDITY

The commonwealth has taken unusual steps to maintain liquidity in recent months, including withholding scheduled debt service payments, borrowing from government-controlled insurance funds and holding onto accelerated retirement benefit payments. For the remaining weeks of the current fiscal year, the fiscal plan's weekly cash flow projection for the Treasury Single Account (the government's main operational account) includes outflows that slightly exceed inflows, even when debt service payments are excluded. Threats to the liquidity forecast may include shortfalls in federal revenue, which is projected to account for almost 27% of total inflows in the year's final weeks, or weakness in local taxes collections. In addition, the commonwealth has $129 million of outstanding bonds issued by the Public Buildings Authority that are subject to mandatory tender for purchase on July 1, 2017, prior to their maturity. We expect that this obligation, which is guaranteed by the commonwealth, will not affect the government's actual liquidity position because it will be restructured along with other debt.

Debt and Pensions

The commonwealth has accumulated very large bonded debt burden in comparison with its economic capacity. Using the approximately $72 billion all-inclusive debt burden as of June 30, 2016,[1] and the commonwealth's preliminary GNP figure for 2016, debt amounted to 102% of economic output. Applying the more expansive GDP (which includes economic activity related to mainland corporations with operations in Puerto Rico), the debt burden amounts to 68% of annual economic output. Debt-to-GDP metrics are far higher than those for the 50 states. Median net tax-supported debt (which excludes some self-supporting obligations) was only 2.2% of GDP in fiscal 2015 among US states, according to Moody's 2016 State Debt Medians report. The commonwealth's net tax-supported debt per capita (excluding PREPA and certain other components of its total debt burden) amounts to about $19,000, compared with US states' median debt-per-capita of $1,025. Pensions are also a significant burden, especially in view of the impending depletion of plan assets. The requirement to fund benefits from operating revenues poses a serious, long-term fiscal challenge to the government.

DEBT STRUCTURE

Puerto Rico has a complex and multi-faceted debt portfolio that was greatly expanded during the last decade, when the government relied on borrowing to fill operating budget deficits. The various security types benefit from differing levels of legal protections, ranging from securities with little if any legal protection to those with clear legal safeguards, such as the constitutional clauses that support priority of payment on the government's general obligation and guaranteed bonds.[4] The debt portfolio is also complex with respect to ownership. Some of the bonds are disproportionately held by local investors in Puerto Rico, others are held by mutual funds on behalf of retail investors in the mainland US, and still others are held by speculative investors with a high degree of risk tolerance. Almost 40% of the $3.1 billion of Employees Retirement System bonds outstanding are held on the island, according to data released by the government.

Given the complexity of debt and investor types, we anticipate that a judicial proceeding is the most likely method of restructuring Puerto Rico's debt. The total debt expected to be involved in such a proceeding encompasses about $52 billion of the government's debt, as shown below. Our current ratings are consistent with bondholder recoveries as high as 65% to 80% on the general obligation and guaranteed bonds, as well as on the senior COFINA bonds and Puerto Rico Aqueduct and Sewer Authority. Several debt types are now rated Ca, signaling recoveries in the 35% to 65% range. Our rating actions have increased the number of securities assigned to the lowest rating, C, which is consistent with expected recovery ranging from 0 to less than 35%.

Affirmation of UPR's Ca rating reflects its cash-funded debt service reserve funds providing full and timely payment of upcoming debt service for 2017, and pledged revenues that would provide adequate debt service coverage after the current debt moratorium. The Ca rating also reflects the university's severe liquidity stress in view of inability to access funds it had deposited at GDB. The negative outlook reflects expected operating and liquidity pressures if the central government's approved appropriation reductions are implemented.

Exhibit 6
Rating actions and outlooks by debt type

Rating Distribution		Action	Outlook
General Obligation	Caa3	Affirmed	Negative
Public Buildings Authority and other guaranteed debt	Caa3	Affirmed	Negative
Puerto Rico Aqueduct and Sewer Authority	Caa3	Affirmed	Negative
Sales Tax Financing Corp. (COFINA)	Caa3/Ca	Affirmed	Negative
Puerto Rico Industrial Development Company (PRIDCO)	Ca	Downgraded	Negative
Puerto Rico Highways and Transportation Authority (1968 Resolution)	Ca	Affirmed	Negative
Municipal Finance Agency	Ca	Affirmed	Negative
University of Puerto Rico (System)	Ca	Affirmed	Negative
University of Puerto Rico (Facilities)	Ca	Affirmed	Negative
Government Development Bank	C	Downgraded	Negative
Puerto Rico Highways and Transportation Authority (except '68 Resolution)	C	Downgraded	Negative
Employees Retirement System	C	Downgraded	Negative
Convention Center District Authority	C	Downgraded	Negative
Puerto Rico Infrastructure Financing Authority	C	Downgraded	Negative
Public Finance Corporation	C	Affirmed	Negative

Source: Moody's Investors Service

DEBT-RELATED DERIVATIVES

Puerto Rico's only remaining direct derivative exposure is through COFINA, which according to the most recent disclosure has a swap with notional principal of $136 million. GO variable-rate debt and swaps were eliminated using proceeds of Puerto Rico's 2014 GO

sale, except for $126.7 million in outstanding GO CPI-linked variable-rate bonds. COFINA as of August 31, 2016, had posted total collateral of $33.3 million to its swap counterparty. COFINA's annual collateral posting requirements are capped at $15 million, and total collateral posting requirements are capped at $60 million. The mark-to-market value of the COFINA swap as of August 31, 2016, was negative $115.7 million.[5] Through a renegotiation of the swap documentation, ratings-based termination events associated with the agreement were eliminated.

PENSIONS AND OPEB

Puerto Rico's reported net pension liabilities amounted to $48.8 billion as of June 30, 2015. The government forecasts that its largest pension fund, the Employees Retirement System, will fully deplete its liquid assets either by the end of June or by the end of December. Once plan assets are depleted, the government will have to shift to paying benefits from operating revenue. The government has warned that, under these circumstances, it would be "likely to seek to prioritize payments to pensioners over other stakeholders, including bondholders."[6] Under PROMESA, the certified fiscal plan must provide "adequate funding" of pensions, but the law also instructs the oversight board to evaluate "existing benefits and their sustainability" as part of a systematic review of any "materially underfunded" plan.[7] The current benefit payment obligations under the two largest plans, including the ERS as well as the Teachers Retirement System, are more than $2 billion and rising. The treatment of pension obligations in Puerto Rico's debt restructuring, and the ability to reduce pension liabilities through future reform measures, will of course have important implications for bondholder recoveries.

Governance

Puerto Rico's governance has long been characterized by lack of adherence to certain best practices, including the use of binding, consensus revenue forecasts and multiyear financial plans and the publication of debt affordability analyses or timely audited financial statements. The commonwealth has no requirement to maintain or replenish a budgetary reserve fund. Audited financial reports have been subject to protracted delays; on July 1, 2016, the government's comprehensive annual financial report for the year ended June 30, 2014, was disseminated, and it contained a qualified opinion as well as cautionary statements about whether the central government and various affiliates would remain as "going concerns." The auditor, KPMG LLP, said it had not audited the activities of some funds and component units, which were instead audited by others. The CAFR for fiscal 2015 has not been released.

Under PROMESA, the oversight board can certify a debt restructuring only if it determines that the restructuring government (or government entity) has taken steps to be deliver timely audited financial statements.[8] In addition, the board at any time can recommend financial management practices aimed at promoting financial stability, and this power under the oversight process will likely promote improvements in Puerto Rico's governments.[9] The board's oversight period cannot terminate until the commonwealth has achieved balanced financial operations for at least four consecutive fiscal years.

Puerto Rico's positive governance features, such as a lack of constitutional caps on revenue and spending increases, are more than offset by the negatives.

Legal Security

Various, including the commonwealth's general obligation and pledges of specific taxes and other revenue sources.

Use of Proceeds

Not applicable

Obligor Profile

Puerto Rico is a self-governing territory of the United States. It operates under a constitution approved in 1952. The island's population, now 3.41 million, has been declining as Puerto Ricans in increasing numbers have moved to the mainland US in search of work. The nature of Puerto Rico's relationship with the US – whether to retain its current status as a commonwealth or to become a state – is a central political issue on the island. The two dominant Puerto Rican political parties are defined by their views on statehood: the Partido Nuevo Progresista (PNP) advocates statehood, while the Partido Popular Democratico is in favor of continued commonwealth status. A smaller, third party favors independence. Our ratings do not contemplate a change in the island's relationship with the US.

Methodology

The principal methodology used in rating the Commonwealth of Puerto Rico, Puerto Rico Municipal Finance Agency, Puerto Rico Highways & Transportation Authority, Puerto Rico Aqueduct and Sewer Authority, Government Development Bank for Puerto Rico, Puerto Rico Industrial Development Company, and Puerto Rico Public Sales Tax Financing Corp. debt was US States Rating Methodology published in April 2013. An additional methodology used in rating the Commonwealth of Puerto Rico's Series 98A, Series 2001 E, 2002 Series A, 2003 Series A,B and C, Series 2004A and B, 2011 Series A, 2011 Series B and 2012 Series A was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. The principal methodology used in the University of Puerto Rico rating was Global Higher Education published in November 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Endnotes

1 The affiliated entities that also had outlook revisions are: the Aqueduct and Sewer Authority (PRASA), the Government Development Bank for Puerto Rico, the Highways and Transportation Authority, the Industrial Development Company, the Municipal Finance Agency, the Sales Tax Financing Corporation (COFINA) and the University of Puerto Rico.

2 Scheduled debt service incorporates bonds expected to be included in the fiscal plan. The Puerto Rico Electric Power Authority and the Puerto Rico Aqueduct and Sewer Authority, which respectively have about $9 billion and $4.6 billion of debt, are expected to restructure separately.

3 Commonwealth of Puerto Rico: Financial Information and Operating Data Report; December 18, 2016.

4 Article VI, Sect. 2 of Puerto Rico Constitution provides for "claw-back" of other available resources to pay GO debt service and limits GO debt service to 15% of revenues; Article VI, Sect 8 gives, GO debt service priority over other governmental expenditures.

5 Commonwealth of Puerto Rico: Financial and Operating Data Report, December 18, 2016.

6 Commonwealth of Puerto Rico: Financial Information and Operating Data Report, December 18, 2016.

7 PROMESA, Sect. 211 (b)(3).

8 Puerto Rico Oversight, Management, and Economic Stability Act, Section 206 (a) (2) (A).

9 Puerto Rico Oversight, Management, and Economic Stability Act, Section 205(a)

REPORT NUMBER 1066481

MOODY'S
INVESTORS SERVICE

7.1.15 Moodys COFINA

12:40 PM

MOODY'S
INVESTORS SERVICE

Rating Update: Moody's downgrades Puerto Rico GOs and COFINA Sr Bonds to Caa3 from Caa2; outlook negative

01 Jul 2015

Other Caa ratings lowered one notch, Ca ratings affirmed; about $56B of debt affected

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
State Governments (including Puerto Rico and US Territories)
PR

NEW YORK, July 01, 2015 --Moody's Investors Service has downgraded the Commonwealth of Puerto Rico's general obligation (GO) and guaranteed bonds as well as its senior lien Sales Tax Financing Corporation (Sr COFINA) bonds to Caa3 from Caa2. As shown in the list at the end of this report, we also lowered ratings assigned to other securities, including bonds of the Puerto Rico Aqueduct and Sewer Authority, which also were downgraded to Caa3 from Caa2. Bonds already in the Ca category were affirmed at that level. In all, about $55.5 billion was affected by these actions. Today's GO rating action marks the seventh downgrade in the past five years. The outlook for all affected securities remains negative.

SUMMARY RATING RATIONALE

Governor Alejandro García Padilla's declaration that the commonwealth cannot pay its debt, the suspension of a law requiring monthly general obligation debt service deposits and the decision to devise broad restructuring plans are clear signs that holders of even those Puerto Rico securities with strong legal protections face significant loss. While our ratings still indicate higher recovery rates for the GO and senior COFINA bonds than for other Puerto Rico government and public corporation securities, it appears unlikely that a limited restructuring excluding those better-protected bonds will be sufficient for Puerto Rico to gain the relief desired. This is consistent with the fact that the GO and COFINA bonds account for a very large share of Puerto Rico's debt.

OUTLOOK

The outlook for Puerto Rico and its related debt remains negative, because of trends such as weakening liquidity and economic deterioration, which we believe point to recovery prospects at the low end of estimates. Efforts to right-size a debt burden that has become overwhelming, following years of deficit financing and economic stagnation, probably will trigger a long and litigious process, perhaps heightening bondholder loss prospects. We will adjust ratings as needed to the extent that recovery rates appear to diverge from those implied by our ratings.

WHAT COULD MAKE THE RATING GO UP

- Restoration of sufficient liquidity position and fiscal operations sufficiently improved to prevent default

- Enactment of sustainable fiscal plan that moves toward structural balance while meeting financial obligations

WHAT COULD MAKE THE RATING GO DOWN

- Unilateral actions by the commonwealth that point to decreased bondholder recoveries

- Negotiated restructuring efforts that, although agreed to, result in reduced recoveries

- Protracted legal confrontations during which payment of debt service is suspended

STRENGTHS

- Political and economic links to the US, with benefit of the nation's strong financial, legal, and regulatory systems

- Broad legal powers, subject to political will, to raise revenue and adjust spending

CHALLENGES

- Extremely high government debt burden, equal to 96% of economic output

- Depleting internal liquidity, and loss of market access to restore cash

- Economic weakness caused by shrinking manufacturing sector and declining population

- Large unfunded pension liabilities relative to revenues, even after efforts at reform

RECENT DEVELOPMENTS: GOVERNOR'S RESTRUCTURING PLAN, SUSPENSION OF DEBT SERVICE DEPOSIT REQUIREMENT CAST DOUBT ON GO BOND PROTECTIONS

Governor Padilla declared his intent to restructure the commonwealth's outstanding debt, saying in a newspaper interview published June 28 that the commonwealth's debt is "not payable." To support his views, Governor Padilla cited the work of three consulting economists with experience at the International Monetary Fund, who were hired to assess the commonwealth's situation. In a report entitled "Puerto Rico - a Way Forward," the economists suggested that because government reforms "would still leave large fiscal financing gaps," the commonwealth also should pursue "debt restructuring to avoid an economically harsh and politically unviable cut in the fiscal deficit." They suggested that Puerto Rico seek relief through "a voluntary exchange of old bonds for new ones" with deferred or reduced debt service requirements. Getting existing bondholders to agree to such an exchange, they acknowledged, would "doubtlessly be challenging," especially in view of "the added complication of extensive pledging of specific revenue streams to specific debts." The report advises on how to proceed with respect to GO bondholders, saying in one instance that "discussion with creditors on general obligation debt should be coordinated with the parallel one being conducted by public enterprises."

Another event casting doubt on protections was the Puerto Rico legislature's approval, the week of June 23, of legislation that will temporarily suspend a requirement for monthly, pro-rata payments into the commonwealth's GO bond debt service funds. Because of the law that in the past has required these payments, the commonwealth was prepared to pay $646 million of debt service on July 1. The new legislation is intended to help Puerto Rico conserve its cash at a time when the government's fund repository, the Government Development Bank for Puerto Rico (GDB, Ca negative), is facing potential depletion of its remaining liquidity. Monthly GO set-asides would amount to about $276 million during the July-through-September quarter, according to GDB. While the government believes that the new law suspending the monthly debt service deposits does not violate any covenants with bondholders, the law appears to lay the groundwork for non-payment on the Puerto Rico bonds that we have viewed as endowed with the strongest legal protections.

The commonwealth raised its sales and use tax rate, effective July 1, to 11.5% from 7%. The levy, which includes a 1% portion collected by municipalities, will remain in effect until March 31, unless extended. It would then shift to a 10.5% value-added tax (VAT), plus the remaining 1% municipal sales and use tax.

DETAILED RATING RATIONALE

ECONOMY: ECONOMIC PERFORMANCE REMAINS WEAK

Puerto Rico's economy has suffered from recession or anemic growth trends since 2006, reflecting the loss of employment in key manufacturing sectors as well as continued exodus of citizens seeking jobs on the mainland. Low oil prices to date have not spurred a revival in economic growth. Puerto Rico's Economic Activity Index (EAI), an economic gauge that combines non-farm employment, electric power generation, gasoline consumption and cement sales, declined 1.0% as of April from a year earlier. The EAI has been declining on a year-over-year basis since early 2006, although it showed some gains in 2012 and 2013. Non-farm payroll growth has continued to lag the nation's rate. Annual benchmark revisions to the Bureau of Labor Statistics employment data resulted in worse figures for Puerto Rico. For example, the BLS revised the commonwealth's non-farm payrolls decline for fiscal 2014 to 2.2% from the 1.3% originally reported.

Long-term, the island's trends of anemic or declining employment and negative net migration appear to be self-reinforcing. Puerto Rico's population shrank by 4.7% from 2010 through 2014, a period when US population overall grew 3%. Puerto Rico's decline reflected both low fertility rates and high levels of out-migration by the young. Outmigration erodes the economy, contributing to weak job growth and more outmigration. Pharmaceutical manufacturing, an important economic engine, has been in decline. Since 2005, the sector's employment has been halved, declining to 13,730 as of September of 2014. The industry nevertheless continues to account for a significant share of the commonwealth's gross product. Cutbacks in pharmaceutical employment in Puerto Rico reflect both industry-wide pressures and the phase-out of certain federal tax incentives. The commonwealth continues to serve as a base for large-scale pharmaceutical and medical devices manufacturing, and the industry in some instances has added to Puerto Rican operations in recent years. Even so, Puerto Rico's employment losses in this important sector have outpaced those in the US as a whole.

FINANCES AND LIQUIDITY: OUTLOOK

The commonwealth's fiscal 2016 budget, approved by the legislature, reportedly included a $9.8 billion general fund component, up from the prior year's $9.6 billion. We have yet to review the contents of the budget but had assumed it would address an approximately $2 billion gap using a combination of increased revenues, spending restraint, and one-time measures.

Liquidity

Puerto Rico's liquidity, based on the available cash at the GDB, has continued to decline, while showing a potential for large monthly swings. The most recent GDB net liquidity tally, $777.9 million as of May 31, represented a 50% drop from the $1.55 billion reported as of November 30. Available cash will continue to decrease in coming weeks. The GDB by statute must maintain liquid reserves equal to 20% of demand deposits, which at current levels would require approximately $500 million. GDB may lack sufficient liquidity to meet this requirement as soon as this month, in the absence of a financing or other to-be-identified emergency measures to replenish cash. Puerto Rico is currently pursuing unusual cash-conservation measures, such as borrowing from insurance funds that it controls and accelerating pension benefit payments, which it can use to bolster liquidity before they are paid out to beneficiaries.

DEBT AND PENSIONS: PUERTO RICO'S DEBT HAS RISEN TO UNSUSTAINABLE LEVELS

Puerto Rico's debt burden is extremely high compared with US states. The commonwealth's net tax supported debt as of December 2014 amounted to 87.5% of personal income, compared with a 2.5% median for US states (excluding overlapping municipal and federal debt burdens). Total public sector debt as of this year amounted to 96% of Puerto Rico's gross national product, according to the GDB. Issuance of sales tax-backed COFINA bonds to finance operating deficits in recent years has added to the burden. There are more than $15 billion of COFINA bonds outstanding, consisting of $6.2 billion senior-lien and $9 billion subordinate-lien bonds.

Puerto Rico's constitution, in Article VI, Sect. 8, gives general obligation bondholders a first claim on available resources; in Sect. 2 of Article VI, bondholders are provided with the ability to compel the commonwealth's treasury secretary to shift available resources to GO debt repayment. This "claw-back" does not apply to the sales tax revenues allocated to COFINA bonds, according to various legal opinions, or to the industrial property rental revenue-backed bonds issued by the Puerto Rico Industrial Development Company, which we downgraded to Caa3 from Caa2. It likewise does not apply to bonds of the Puerto Rico Aqueduct and Sewer Authority (PRASA), which also are now rated Caa3. While bonds issued by the Municipal Finance Agency (MFA) are also exempt from the "claw-back," these securities were downgraded to Ca based on the subject-to appropriation nature of the commonwealth's obligation to replenish a debt service reserve for the bonds.

The claw-back provision would apply to the Convention Center District Authority (CCDA)'s hotel occupancy tax revenues, to rum tax payments allocated to the PRIFA rum tax bonds, and to most revenues pledged to the Highways and Transportation Authority (HTA), all of which we downgraded to Ca last month because of their exposure to this mechanism. The downgrade of the University of Puerto Rico's (UPR) bonds reflects extraordinarily high reliance on the commonwealth for operating support and governance. With extremely weak liquidity, UPR is exposed to the commonwealth's fiscal pressures and has little cushion to cope with reduced appropriations or interrupted cash flow.

Debt Structure

Puerto Rico faces rising debt service obligations, particularly on its COFINA bonds. Total debt service of the central government and its public corporations except for PREPA rises by 29% in fiscal 2016, which began today. Looking just at GO GDB notes, debt service increases 53%. Driving future debt service growth will be factors such as COFINA principal amortization, which will propel COFINA total debt service at a compound annual growth rate of about 4% through 2041.

Debt-Related Derivatives

Apart from the Puerto Rico Electric Power Authority, which has $253 million of swaps, Puerto Rico's only remaining derivative exposure is through COFINA, which has a swap with notional principal of $136 million. GO variable-rate debt and swaps were eliminated using proceeds of last year's $3.5 billion GO sale, except for $126.7 million in outstanding GO CPI bonds. COFINA posted $12 million of swap collateral in September 2014, and another $15 million in January 2015, for a total of $27 million. COFINA is only required to post up to $15 million in collateral annually, with a total posting cap of $60 million. The mark-to-market value of the COFINA swap as of March 31 was negative $88 million. Through a renegotiation of the swap documentation, ratings-based termination events associated with the agreement have been eliminated.

Pensions and OPEB

Despite some successful pension reform efforts, Puerto Rico also has an outsized pension liability. Its adjusted net pension liability of $41.3 billion for fiscal 2013 equaled 223% of revenues, compared with a US state median of 60% of revenues. Moody's ANPL adjusts reported pension numbers by applying a market-derived discount rate. On an as-reported basis, pension liabilities of the commonwealth's three main systems (ERS, TRS and JRS) increased 44%, to $40.4 billion, during the 2009-2012 period. Plan assets, meanwhile, fell 56% from 2007 through 2013, dropping to $2.7 billion as of June 30, 2013. On April 11, 2014, the Puerto Rican Supreme Court struck down a key pension reform enacted in 2013. The law (Act 160) was intended to keep the Teachers Retirement System and Judicial Retirement System solvent by raising minimum retirement ages, and employee contribution requirements. It also implemented a defined contribution plan for future benefit accruals. The court held that these reforms, which were similar to reforms to the Employees Retirement System (ERS) that the court had previously assented to, impaired a contractual obligation to current employees. The TRS may fully deplete its assets in 2020, without the reforms, based on our analysis. The projected timeline is closely aligned with that of the plan's actuaries. ERS is also at risk of fully depleting assets around the same time, particularly if the plan experiences one to two years of adverse investment performance and the commonwealth continues to neglect its additional contribution requirements. Shifting to covering the cost of benefits from operating revenue will pose a new and significant fiscal burden

on the commonwealth; combined benefits and expenses of the two major plans (TRS and ERS) would amount to $2.3 billion in 2021. The pension reforms provided for additional actuarially determined employer contributions, to strengthen funding, although the commonwealth and some participating public corporations and municipalities were not able to make the required additional payments in fiscal 2014 or 2015 in full.

MANAGEMENT AND GOVERNANCE

Puerto Rico's governance is characterized by lack of adherence to certain best practices, including the use of binding consensus revenue forecasts and multiyear financial plans and the publication of affordability analyses or timely audited financial statements. The audit for the year that ended June 30, 2014, is expected to be completed by July 31, 2015. The commonwealth has no requirement to maintain or replenish a budgetary reserve fund. Puerto Rico benefits from the absence of constitutional caps on revenue and spending increases, as well as the absence of a requirement for legislative super-majorities to adopt a budget or raise taxes. Moreover, it is not vulnerable to voter initiatives or referenda that could pose budgetary risk.

KEY STATISTICS

- Per capita income relative to U.S. average: 38.5%

- Industrial diversity (1=most diverse): 0.51

- Employment volatility (U.S.=100): 120

- Available balances as % of operating revenue (5-yr. avg.): -26.6%

- Total governmental debt/total governmental revenue (2013): 256.7%

- 3-year avg. adjusted net pension liability/total governmental revenue: 223.4%

OBLIGOR PROFILE

Puerto Rico is a territory of the United States, with a population of 3.5 million (and an estimated population decline of 1.4% in 2014). The island has a high unemployment rate of 11.8%, high debt and pension metrics, and a declining economy.

LEGAL SECURITY

This action affects many of the commonwealth's securities, including the GO debt, which is a full faith and credit obligation of the commonwealth.

USE OF PROCEEDS

Not applicable

RATINGS AFFECTED

Downgraded to Caa3 from Caa2:

Commonwealth general obligation and guaranteed

COFINA Senior

Puerto Rico Industrial Development Company

Puerto Rico Aqueduct and Sewer Authority

Downgraded to Ca from Caa3:

COFINA Junior

Municipal Finance Agency

University of Puerto Rico - System Revenue Bonds

Affirmed at Ca:

University of Puerto Rico - Educational Facilities Revenue Bonds

Commonwealth appropriation-backed debt

Government Development Bank notes

Puerto Rico Highways and Transportation Authority

Puerto Rico Infrastructure Financing Authority - rum tax bonds

Pension Funding Bonds

Convention Center District Authority

PRINCIPAL METHODOLOGY

The principal methodology used in rating the Commonwealth of Puerto Rico, Puerto Rico Municipal Finance Agency, Puerto Rico Highway & Transportation Authority, Puerto Rico Aqueduct and Sewer Authority, Puerto Rico Infrastructure Financing Authority, Government Development Bank for Puerto Rico, Convention Center District Authority, and Puerto Rico Public Finance Corporation debt was US States Rating Methodology published in April 2013.

The additional methodology used in rating the Puerto Rico Highway & Transportation Authority debt, the Puerto Rico Infrastructure Financing Authority debt, and the Puerto Rico Convention Center District Authority debt was US Public Finance Special Tax Methodology published in January 2014.

The additional methodology used in rating the Puerto Rico Aqueduct and Sewer Authority was US Municipal Utility Revenue Debt published in December 2014.

The additional methodology used in rating the Puerto Rico Public Finance Corporation debt was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011.

The principal methodology used in rating the University of Puerto Rico debt was U.S. Not-for-Profit Private and Public Higher Education published in August 2011.

The principal methodology used in rating the Puerto Rico Sales Tax Financing Corporation debt and the Puerto Rico Industrial Development Company debt was US Public Finance Special Tax Methodology published in January 2014. An additional methodology used in this rating was US States Rating Methodology published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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5.21.15_Moodys COFINA

Tuesday, December 18, 2018
3:25 PM

MOODY'S
INVESTORS SERVICE

Rating Update: **Moody's downgrades Puerto Rico GDB notes to Ca from Caa1, GOs to Caa2 from Caa1; outlook negative**

21 May 2015

Approximately $54.8B of debt affected

PUERTO RICO (COMMONWEALTH OF)
State Governments (including Puerto Rico and US Territories)
PR

NEW YORK, May 21, 2015 --Moody's Investors Service has downgraded the Government Development Bank for Puerto Rico's notes to Ca from Caa1, the Commonwealth of Puerto Rico's general obligation and guaranteed bonds to Caa2 from Caa1, and other affiliated credits by two notches in most cases. In all, about $54.8 billion was affected by these actions, and a list of rating changes is at the end of this report. Included in the total debt affected are $15.2 billion of Sales Tax Financing Corporation (or COFINA) bonds. COFINA's senior debt was downgraded to Caa2 from B3, and its subordinate-lien obligations were lowered to Caa3 from Caa1. The outlook for all affected securities remains negative.

SUMMARY RATING RATIONALE

According to recent disclosures, cash resources at the GDB may be fully depleted by the end of August in the absence of market access or emergency actions to preserve cash. GDB faces a 53% debt-service surge in the fiscal year starting July 1, and deposit withdrawals by the Puerto Rico Electric Power Authority (Caa3 negative) and the Puerto Rico Housing Administration in coming weeks will accelerate GDB's liquidity erosion. We believe that the commonwealth will not be able to complete its planned financing (which was to replenish cash at the GDB) before the end of the fiscal year, and that Puerto Rico and the GDB will be forced to pursue cash-conservation measures such as seeking to defer principal repayment to holders of bonds that are not protected by the strongest revenue pledges or constitutional provisions, such as GDB notes and the government's subject-to-appropriation debt. As a consequence, ratings on Puerto Rico's unprotected securities have dropped to levels consistent with substantial expected losses. The legally protected securities - notably, the government's general obligation and Sales Tax Financing Corp. (COFINA) bonds - are also affected by rising default risk, given that they account for a significant majority of the commonwealth's tax-supported debt burden. The higher ratings assigned to the GO and COFINA credits incorporate their legal protections and the government's incentive to avoid litigation with bondholders.

OUTLOOK

The outlook for Puerto Rico and its related debt remains negative, because of trends such as weakening liquidity and economic deterioration, which we believe may further heighten default probabilities and further reduce bondholder recovery prospects in coming months.

WHAT COULD MAKE THE RATING GO UP

-Restoration of sufficient liquidity position to prevent defaults

-Enactment of sustainable fiscal plan that moves toward structural balance while meeting financial obligations

WHAT COULD MAKE THE RATING GO DOWN

-For legally protected securities (primarily GO and COFINA), indications of growing default risk

-Rising loss-given-default expectations on lower-rated securities

STRENGTHS

-Political and economic links to the US, with benefit of the nation's strong financial, legal, and regulatory systems

-Broad legal powers, dependent upon political will, to raise revenue and adjust spending

CHALLENGES

-Very high government debt, equal to more than 93% of gross product

-Weak internal liquidity, and apparent loss of limited access to financing to replenish cash

-Economic weakness caused by shrinking manufacturing sector and declining population

-Very large unfunded pension liabilities relative to revenues, even after efforts at reforms

RECENT DEVELOPMENTS: PLANNED FINANCING ON HOLD PENDING COMPLETION OF FISCAL 2016 BUDGET AND DISCLOSURES

The issuance of as much as $2.95 billion of petroleum products tax-backed bonds has been delayed and appears to be on hold pending resolution of questions surrounding the budget for the year that starts July 1 as well as additional disclosures, such as the publication of audited financial statements for the year ended June 30, 2014.

Failure to execute this financing leaves GDB and the commonwealth on track to deplete their liquidity in coming weeks. The House of Representatives on April 30 voted down Gov. Alejandro García Padilla's proposal to raise revenue by implementing a Value-Added Tax (VAT) in place of the existing sales and use tax. This outcome indicates the significant political hurdles to fiscal actions such as tax increases and service cuts, which we believe will help drive efforts to restructure debt. Any revenue increases that are enacted now, we believe, will likely be combined with expenditure reductions that affect not only public programs but also debt service payment obligations.

Another recent development that supports this view has been continued tax revenue underperformance. General fund revenues for the fiscal year to date (as of April 30) were $250.6 million (or 3.4%) below forecast, and the government projected in its May 7 quarterly report that full-year receipts will trail the expected amount by $651 million (or 6.8%). The government anticipates offsetting all but $191 million of this deficit, and said it has already implemented corrective actions totaling $275 million. However, we believe that some of these remedial measures - such as tax amnesty - are subject to implementation risk. Moreover, the commonwealth's May 7 report discussed the preliminary findings of financial and economic consultants hired to oversee the government's fiscal and debt reform efforts. One of the consultants identified liquidity risks ranging from $400 million to $1.85 billion, some of which could affect cash in the near term.

DETAILED RATING RATIONALE

ECONOMY: ECONOMIC PERFORMANCE REMAINS WEAK

Puerto Rico's economy has suffered from recession or anemic growth trends since 2006, reflecting the loss of employment in key manufacturing sectors as well as continued exodus of citizens seeking jobs on the mainland. Low oil prices to date have not spurred a revival in economic growth. Puerto Rico's Economic Activity Index (EAI), an economic gauge that combines non-farm employment, electric power generation, gasoline consumption and cement sales, declined 1.5% as of March from a year earlier. The EAI has been declining on a year-over-year basis since early 2006, although it showed some gains in 2012 and 2013. Non-farm payroll growth has continued to lag the nation's rate. Annual benchmark revisions to the Bureau of Labor Statistics employment data resulted in worse figures for Puerto Rico. For example, the BLS revised the commonwealth's non-farm payrolls decline for fiscal 2014 to 2.2% from the 1.3% originally reported.

Long-term, the island's trends of anemic or declining employment and negative net migration appear to be self-reinforcing. Puerto Rico's population shrank by 4.7% from 2010 through 2014, a period when US population overall grew 3%. Puerto Rico's decline reflected both low fertility rates and high levels of out-migration by the young. Outmigration erodes the economy, contributing to weak job growth and more outmigration. Pharmaceutical manufacturing, an important economic engine, has been in decline. Since 2005, the sector's employment has been halved, declining to 13,730 as of September of 2014. The industry nevertheless continues to account for a significant share of the commonwealth's gross product. Cut-backs in pharmaceutical employment in Puerto Rico reflect both industry-wide pressures and the phase-out of certain federal tax incentives. The commonwealth continues to serve as a base for large-scale pharmaceutical and medical devices manufacturing, and the industry in some instances has added to Puerto Rican operations in recent years. Even so, Puerto Rico's employment losses in this important sector have outpaced those in the US as a whole.

FINANCES AND LIQUIDITY: OUTLOOK

The commonwealth's fiscal 2016 general fund budget will have to address projected expense increases of $1.07 billion, primarily reflecting additional debt service and pension contribution expenses. In addition, the disclosure document notes that the base revenue for the coming year will be reduced by the loss of $810 million in non-recurring sources. We conservatively estimate that the budget gap to be addressed may approach $2 billion. The legislature is currently considering a plan to address this deficit, through $1.2 billion of increased tax revenues and at least $500 million in expenditure cuts. However, adoption of this plan remains uncertain and it will not by itself remove near-term liquidity challenges. The government's ability to devise revenue increases and expense reductions that address this deficit, without impairing bondholders, therefore remains in doubt.

Liquidity

Puerto Rico's liquidity, based on the available cash at the GDB, has continued to decline, while showing a potential for large swings from month to month. The most recent GDB net liquidity tally, $1.02 billion as of April 30, represented a 30% drop from the $1.47 billion reported as of January 31. This available cash will continue to decrease in coming weeks, we believe. The GDB by statute must maintain liquid reserves equal to 20% of demand deposits, which at current levels would require approximately $500 million. The May 7 disclosure document notes that GDB will not have sufficient liquidity to meet this requirement as soon as this July, in the absence of a financing or other to-be-identified emergency measures to replenish cash.

DEBT AND PENSIONS: PUERTO RICO'S DEBT HAS RISEN TO UNSUSTAINABLE LEVELS

Puerto Rico's debt burden is extremely high compared with US states. The commonwealth's net tax supported debt amounted to 87.5% of personal income, compared with a 2.6% median for US states (excluding overlapping municipal and federal debt burdens). Debt also accounts for almost 95% of economic output, compared with a median 2.4% debt to GDP ratio among the 50 states. Issuance of sales tax-backed COFINA bonds to finance operating deficits in recent years added to the burden. There are more than $15 billion of COFINA bonds outstanding, consisting of $6.2 billion senior-lien and $9 billion subordinate-lien bonds. Creation of this financing vehicle helped Puerto Rico avoid violating a constitutional cap on its general obligation debt. The constitution, in Article VI, Sect. 2, limits maximum annual debt service (MADS) of the commonwealth's GO debt to 15% of the most recent two-year average of annual revenues. As of July 31, 2014, the GDB calculated that MADS on Puerto Rico's GO bonds was $1.18 billion, or 13.8% of average adjusted internal revenues for fiscal years 2013 and 2014. This limit does not apply to guarantees, so long as actual payments under the guarantees, when added to GO debt service, do not violate the 15% level.

Puerto Rico's constitution, in Article VI, Sect. 8, provides protection for general obligation bondholders, allowing them to require Treasury Secretary to apply available resources to debt repayment. This "claw-back" does not apply to COFINA bonds, according to various legal opinions, or to the industrial property rental revenue-backed bonds issued by the Puerto Rico Industrial Development Corp., which was downgraded to Caa2 from B3. It also does not apply to bonds of the Puerto Rico Aqueduct and Sewer Authority (PRASA), now rated Caa2, or to the bonds issued by the Municipal Finance Agency (MFA), now rated Caa3. The provision does apply to the Convention Center District Authority (CCDA)'s hotel occupancy tax-backed bonds, the PRIFA rum tax bonds, and to most revenues pledged to the Highway and Transportation Authority (HTA), all of which have been lowered to Ca due to their exposure to the claw-back.

Debt Structure

Puerto Rico faces rising debt service obligations, particularly on its COFINA bonds. Total debt service of the central government and its public corporations except for PREPA and PRASA will rise by 26% in fiscal 2016. Looking just at GO GDB notes, debt service rises by 53%. Driving future debt service increases will be factors such as COFINA principal amortization, which will propel COFINA total debt service at a compound annual growth rate of about 4% through 2041.

Debt-Related Derivatives

Apart from the Puerto Rico Electric Power Authority, which has $253 million of swaps, Puerto Rico's only remaining derivative exposure is through COFINA, which has a swap with notional principal of $136 million. GO variable-rate debt and swaps were eliminated using proceeds of last year's $3.5 billion GO sale, except for $126.7 million in outstanding GO CPI bonds. COFINA posted $12 million of swap collateral in September 2014, and another $15 million in January 2015, for a total of $27 million. COFINA is only required to post up to $15 million in collateral annually, with a total posting cap of $60 million. The mark-to-market value of the COFINA swap as of March 31 was negative $88 million. Through a renegotiation of the swap documentation, ratings-based termination events associated with the agreement have been eliminated.

Pensions and OPEB

Despite some successful pension reform efforts, Puerto Rico also has an outsized pension liability. Its adjusted net pension liability of $41.3 billion for fiscal 2013 equaled 223% of revenues, compared with a US state median of 60% of revenues. Moody's ANPL adjusts reported pension numbers by applying a market-derived discount rate. On an as-reported basis, pension liabilities of the commonwealth's three main systems (ERS, TRS and JRS) increased 44%, to $40.4 billion, during the 2009-2012 period. Plan assets, meanwhile, fell 56% from 2007 through 2013, dropping to $2.7 billion as of June 30, 2013. On April 11, 2014, the Puerto Rican Supreme Court struck down a key pension reform enacted in 2013. The law (Act 160) was intended to keep the Teachers Retirement System and Judicial Retirement System solvent by raising minimum retirement ages, and employee contribution requirements. It also implemented defined contribution plan for future benefit accruals. The court held that these reforms, which were similar to reforms to the Employees Retirement System (ERS) that the court had previously assented to, impaired contractual obligation to current employees. The TRS may fully deplete its assets in 2020, without the reforms, based on our analysis. The projected timeline is closely aligned with that of the plan's actuaries. ERS is also at risk of fully depleting assets around the same time, particularly if the plan experiences one to two years of adverse investment performance and the commonwealth continues to neglect its additional contribution requirements. Shifting to covering the cost of benefits from operating revenue will pose a new and significant fiscal burden on the commonwealth; combined benefits and expenses of the two major plans (TRS and ERS) would amount to $2.3 billion in 2021.

MANAGEMENT AND GOVERNANCE

Puerto Rico's governance is characterized by lack of adherence to certain best practices, including the use of binding consensus revenue forecasts and multiyear financial plans and the publication of affordability analyses or timely audited financial statements. The audit for the year that ended June 30, 2014, is expected to be completed by July 31, 2015. The commonwealth has no requirement to maintain or replenish a budgetary reserve fund. Puerto Rico benefits from the absence of constitutional caps on revenue and spending increases, as well as the absence of a requirement for legislative super-majorities to adopt a budget or raise taxes. Moreover, it is not vulnerable to voter initiatives or referenda that could pose budgetary risk.

KEY STATISTICS

-Per capita income relative to U.S. average: 38.9%

-Industrial diversity (1=most diverse): 0.49

-Employment volatility (U.S.=100): 120

-Available balances as % of operating revenue (5-yr. avg.): -20.44%

-Total governmental debt/total governmental revenue: 256.7%

-3-year avg. adjusted net pension liability/total governmental revenue: 223.4%

OBLIGOR PROFILE

Puerto Rico is a territory of the United States, with a population of 3.5 million (and an estimated population decline of 1.4% in 2014). The island has a high unemployment rate of 11.8%, high debt and pension metrics, and a declining economy.

LEGAL SECURITY

This action affects many of the commonwealth's securities, including the GO debt, which is a full faith and credit obligation of the commonwealth.

USE OF PROCEEDS

Not applicable

RATINGS AFFECTED

Downgraded to Caa2:

COFINA Senior (from B3)

Puerto Rico Industrial Development Company (from B3)

Commonwealth general obligation and guaranteed (from Caa1)

Aqueduct and Sewer Authority (from Caa1)

Downgraded to Caa3:

Municipal Finance Agency (from Caa1)

University of Puerto Rico - System Revenue Bonds (from Caa2)

Downgraded to Ca:

University of Puerto Rico - Educational Facilities Revenue Bonds (from Caa3)

Commonwealth's appropriation-backed debt (from Caa2)

Government Development Bank debt (from Caa1)

Highways and Transportation Authority (from Caa2)

Infrastructure Financing Authority - rum tax bonds (from Caa2)

Pension Funding Bonds (from Caa2)

Convention Center District Authority (from Caa2)

RATING METHODOLOGIES

The principal methodology used in rating the Commonwealth of Puerto Rico, Puerto Rico Municipal Finance Agency, Puerto Rico Highway & Transportation Authority, Puerto Rico Aqueduct and Sewer Authority, Puerto Rico Infrastructure Financing Authority, Government Development Bank for Puerto Rico, Convention Center District Authority, and Puerto Rico Public Finance Corporation debt was US States Rating Methodology published in April 2013.

The additional methodology used in rating the Puerto Rico Highway & Transportation Authority debt, the Puerto Rico Infrastructure Financing Authority debt, and the Puerto Rico Convention Center District Authority debt was US Public Finance Special Tax Methodology published in January 2014.

The additional methodology used in rating the Puerto Rico Aqueduct and Sewer Authority was US Municipal Utility Revenue Debt published in December 2014.

The additional methodology used in rating the Puerto Rico Public Finance Corporation debt was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011.

The principal methodology used in rating the University of Puerto Rico debt was U.S. Not-for-Profit Private and Public Higher Education published in August 2011.

The principal methodology used in rating the Puerto Rico Sales Tax Financing Corporation debt and the Puerto Rico Industrial Development Company debt was US Public Finance Special Tax Methodology published in January 2014. An additional methodology used in this rating was US States Rating Methodology published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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MOODY'S
INVESTORS SERVICE

Rating Update: Moody's downgrades Puerto Rico GO bonds to Caa1 from B2, COFINA to B3/Caa1 from Ba3/B1

19 Feb 2015

Total debt downgraded amounts to $48 billion; negative outlook maintained

PUERTO RICO (COMMONWEALTH OF)
State Governments (including Puerto Rico and US Territories)
PR

NEW YORK, February 19, 2015 --Moody's Investors Service has downgraded the Commonwealth of Puerto Rico's general obligation bonds and guaranteed debt to Caa1 from B2, its Sales Tax Financing Corporation (COFINA) senior and subordinate bonds, respectively, to B3 and Caa1 from Ba3 and B1, and the notes of the Government Development Bank for Puerto Rico, to Caa1 from B3. Additionally, the Puerto Rico Highway and Transportation Authority's senior bonds were downgraded to Caa2 from Caa1, while ratings on the Puerto Rico Aqueduct and Sewer Authority (PRASA) have been affirmed at Caa1, in connection with this action. Other securities affected are listed at the end of this report. A negative outlook has been maintained for all of Puerto Rico's governmental and public corporation debt.

SUMMARY RATING RATIONALE

Tax revenue shortfalls attributable to sluggish economic growth may accelerate the depletion of Puerto Rico's already very narrow liquidity, leaving the commonwealth unprepared to manage substantial growth in debt payments in the fiscal year starting July 1. Continued liquidity for operations and debt repayment depends on access to a small lender group. Tax reforms now before the legislature, which are uncertain in their timing and their results, further signal a rising degree of political risk that could ultimately cause outcomes unfavorable to bondholders. These factors have increased the probability of default on GDB, GO, COFINA and other central government debt to a high level, during the next two years. Downgrades of some ratings to Caa2, a notch below the commonwealth's GO rating, reflect the vulnerability of pledged revenues to a constitutional provision that provides a claim in favor of general obligation bondholders. At the same time, we see no material increase in risks associated with PRASA.

OUTLOOK

The outlook for Puerto Rico remains negative. Weakening liquidity and economic deterioration may put increasing pressure on the commonwealth's credit position in coming months, heightening the risk of default on central government obligations. Efforts to access the capital market, if successful, may bolster liquidity in the short term but will not address fundamental economic and fiscal stress. Significant tax reforms may have a longer-term fiscal benefit, but also signal the difficulty of meeting all obligations in the near term under the current fiscal structure.

WHAT COULD MAKE THE RATING GO UP

- We do not anticipate an upward rating movement at this time

WHAT COULD MAKE THE RATING GO DOWN

- Indications that the commonwealth is actively considering debt restructuring or other strategies that would lead to default

- Significant further weakening of GDB liquidity

- Decline in revenues caused by economic or other factors

STRENGTHS

- Political and economic links to the US, with benefit of the nation's strong financial, legal, and regulatory systems

- Large economy, with gross product exceeding that of 14 US states and population greater than 20 states

- Broad legal powers to raise revenues, and to adjust spending programs to maintain solvency

- Continuing efforts to stabilize finances, including tax increases and spending cuts

CHALLENGES

- Very high government debt burden, equal to almost 95% of gross product, resulting in part from deficit financing

- Weak internal liquidity, with reliance on increasingly costly lending from speculative investor group

- Economic weakness caused by shrinking manufacturing sector and declining population

- Very large unfunded pension liabilities relative to revenues, even after efforts at reforms

RECENT DEVELOPMENTS

The liquidity of the Government Development Bank for Puerto Rico, the commonwealth's fiscal agent and fund repository, has diminished since the commonwealth's $3.5 billion sale of general obligation (GO) bonds last March. While the GDB's liquidity is not dramatically different from what we expected in July, it has continued to weaken. The government has yet to complete a planned refinancing of $2 billion in internal loans to replenish the GDB's cash, by selling a new security. If the loans, made by the GDB to the Puerto Rico Highway and Transportation Authority (PRHTA), cannot be refinanced, cash available for operations and debt service could soon drop to insufficient levels. Puerto Rico's potential inability to access the market for this financing, and the liquidity crisis that could follow, pose greater risk over time to existing holders of Puerto Rico GO bonds and other central government obligations. Tax revenues of Puerto Rico's general fund have lagged forecast by 2.5% this fiscal year so far (July through January). In view of still anemic economic trends, the revenue gap could widen after April income tax payments. Puerto Rico's Economic Activity Index as of December was down 1.4% on a year-over-year basis.

A US District Court judge on February 6 rejected Puerto Rico's 2014 debt restructuring law, which provided a process for public corporation debt restructuring, as unconstitutional. This development did not change our view of Puerto Rico's fundamental credit pressures and in fact underscored the potential need to consider restructuring debt beyond that of the Puerto Rico Electric Power Authority (PREPA, Caa3 negative), which is currently negotiating with creditors under a forbearance agreement. The continued economic and fiscal weakening together with this ruling may mean that Puerto Rico's options for avoiding a consolidated debt restructuring, including all of its obligations, are dwindling.

In Puerto Rico's legislature, the commonwealth's governor is trying to advance broad tax reforms, such as a value-added tax (VAT) that may improve revenue and economic conditions. The government's ability to implement such a vast tax overhaul successfully, and in a timely fashion, is unclear.

DETAILED RATING RATIONALE

ECONOMY: LOW OIL PRICES HAVE YET TO REVIVE GROWTH; POPULATION DECLINES

Puerto Rico's economy has suffered from recession or anemic growth trends since 2006, reflecting the loss of employment in key manufacturing sectors as well as continued exodus of citizens seeking jobs on the mainland. Low oil prices to date have not spurred a revival in economic growth. Puerto Rico's Economic Activity Index (EAI), an economic gauge that combines non-farm employment, electric power generation, gasoline consumption and cement sales, declined 1.4% as of December from a year earlier. The EAI has been declining since early 2006, although it showed some gains in 2012. Non-farm payroll growth has continued to lag the nation's rate. December preliminary non-farm payrolls declined 0.9% on a year-over-year basis compared with the nation's 2.3% gain. Unemployment, at 13.7 % as of December, is more than twice the nation's 5.6%. Labor force participation and median household income are both low versus the nation.

Long-term, the island's trends of anemic or declining employment and negative net migration appear to be self-reinforcing. Puerto Rico's population shrank by 4.7% from 2010 through 2014, a period when US population overall grew 3%. Puerto Rico's decline reflected both low fertility rates and high levels of out-migration by the young. Outmigration erodes the economy, contributing to weak job growth and more outmigration. Pharmaceutical manufacturing, an important economic engine, has been in decline. Since 2005, the sector's employment has been halved, declining to 15,700 as of fiscal 2013. The industry nevertheless continues to account for a significant share of the commonwealth's gross product. Cut-backs in pharmaceutical employment in Puerto Rico reflect both industry-wide pressures and the phase-out of certain federal tax incentives in 2006. The commonwealth continues to serve as a base for large-scale pharmaceutical and medical devices manufacturing, and the industry in some instances has added to Puerto Rican operations in recent years. Even so, Puerto Rico's employment losses in this important sector have outpaced those in the US as a whole.

FINANCES AND LIQUIDITY: PROPOSED NEW TAX SYSTEM ENTAILS RISKS, BUT COULD IMPROVE REVENUES

Puerto Rico has incurred operating budget deficits equal to about 16% of revenues (adjusted to exclude bond principal repayment) in recent years, based on audited data for the 2008-2013 period. In many instances, the commonwealth has relied on deficit financing to help address its operating shortfalls. Proceeds of bonds sold by COFINA, for example, provided $1.7 billion a year on average mostly to plug operating shortfalls in the fiscal years 2010 through 2014. Such non-recurring revenues, however, have driven up the commonwealth's long-term debt burden. Moreover, their continued use will depend upon the willingness of investors, who seek increasingly high rates to compensate for their risk of loss on Puerto Rico bonds. General fund revenues in the current fiscal year (ending June 30) through January fell 2.5% (or $115.2 million) short of budgetary estimates. On a full-year basis, this shortfall would amount to about $240 million. Measures to

close the gap may include encouraging prepayment of corporations' dividend taxes, by offering reduced tax rates, and tax amnesty programs for individuals and corporations.

The biggest contributor to the current year's revenue shortfall has been corporation excise taxes under Act 154. Paid primarily by US pharmaceutical or electronics makers, Act 154 excise revenues typically account for a fifth of general fund tax revenues. Continued reliance on these taxes poses a financial risk in part because the tax is derived from a small number of corporations. Also, the US Treasury could at any time disallow federal income tax credits that these firms seek for their Act 154 payments. On December 31, 2017, the tax transitions from the existing 4% excise tax to a "modified source" income rule. It is unclear whether revenues would rise or fall as a result.

The uncertainty surrounding this revenue source is one of the reasons for Puerto Rico's current tax reform effort. Puerto Rico's governor has proposed implementing a 16% Valued Added Tax (VAT), which would be substituted for the commonwealth's existing sales and use taxes. The measure would be coupled with income tax cuts, eliminating income tax liabilities altogether for an estimated 850,000 individuals while lowering the top effective rate to 21% from 38%. In addition, lower-income taxpayers would be reimbursed for VAT payments to varying degrees. We believe that the goals of the VAT are reasonable, and that successful tax reforms could help Puerto Rico manage its growing fixed costs. VATs successfully implemented elsewhere, including in the Caribbean, have had positive tax revenue effects. However, the tax overhaul's enactment and implementation will carry risks. Net revenues in the enacted legislation may not provide meaningful gains for the commonwealth's budget, and new revenue collections may present mechanical challenges.

Liquidity

Puerto Rico's liquidity, based on the available cash at the GDB, has continued to decline, while showing a potential for large swings from month to month. The most recent GDB net liquidity tally, $1.47 billion as of January 31, is not dramatically different from GDB's forecast issued about a year ago. That projection showed available liquidity of $1.59 billion as of March 31, 2015. However, the trend of falling liquidity in the absence of borrowed funds signals a growing risk of cash depletion that would force choices between continued payments either for public services or to bondholders. A planned sale of debt backed by petroleum profits tax revenues to refinance a portion of GDB loans to the Puerto Rico Highway and Transportation Authority would restore GDB's liquidity, but would only provide a temporary solution to the commonwealth's liquidity challenges.

DEBT AND PENSIONS: PUERTO RICO'S DEBT FAR EXCEEDS US STATE MEDIAN

Puerto Rico's debt burden is very high compared with US states. The commonwealth's net tax supported debt amounted to 87.5% of personal income, compared with a 2.6% median for US states (excluding overlapping municipal and federal debt burdens). Debt also accounts for almost 95% of economic output, compared with a median 2.4% debt to GDP ratio among the 50 states. Issuance of sales tax-backed COFINA bonds to finance operating deficits in recent years added to the burden. There are more than $15 billion of COFINA bonds outstanding, consisting of $6.2 billion senior-lien and $9 billion subordinate-lien bonds. Creation of this financing vehicle helped Puerto Rico avoid violating a constitutional cap on general obligation debt. The constitution in Article VI, Sect. 2, limits maximum annual debt service (MADS) of the commonwealth's GO debt to 15% of the most recent two-year average annual revenues. As of July 31, 2014, the GDB calculated that MADS on Puerto Rico's GO bonds was $1.18 billion, or 13.8% of average, adjusted internal revenues for fiscal years 2013 and 2014. This limit does not apply to guarantees, so long as actual payments under the guarantees, when added to GO debt service, do not violate the 15% level.

Puerto Rico's constitution, in Article VI, Sect. 8, provides protection for general obligation bondholders, allowing them to require Treasury Secretary to apply available resources to debt repayment. This "claw-back" does not apply to COFINA bonds, according to various legal opinions, or to the industrial property rental revenue-backed bonds issued by the Puerto Rico Industrial Development Corp., which was downgraded to B3 from Ba3. It also does not apply to bonds of the Puerto Rico Aqueduct and Sewer Authority (PRASA), or to the bonds issued by the Municipal Finance Agency (MFA), both of which are now rated Caa1, at the same level as the commonwealth and the GDB. The provision does apply to the Convention Center District Authority (CCDA)'s hotel occupancy tax-backed bonds, which were downgraded to Caa2 from Caa1, and to the Highway and Transportation Authority (HTA). The senior-lien bonds of the HTA, which are secured by revenues that are mostly subject to the claw-back provision, were downgraded to Caa2, while the subordinate-lien HTA bonds were affirmed at that level.

Debt Structure

Puerto Rico faces rising debt service obligations, particularly on its COFINA bonds. Total debt service rises 35% in fiscal 2016, including increases in GO debt service and payments on GDB notes. Debt burden increases in subsequent years are driven by COFINA's rising debt service requirements.

Debt-Related Derivatives

Apart from the Puerto Rico Electric Power Authority, which has $253 million of swaps, Puerto Rico's only remaining derivative exposure is through COFINA, which has a swap with notional principal of $136 million. GO variable-rate debt and swaps were eliminated using proceeds of last year's $3.5 billion GO sale, except for $126.7 million in outstanding GO CPI

bonds. COFINA posted $12 million of swap collateral in September 2014, and another $15 million in January 2015. COFINA is only required to post up to $15 million in collateral annually, with a total posting cap of $60 million. The mark-to-market value of the swap as of September 30, 2014, was negative $60.4 million. Through a renegotiation of the swap documentation, ratings-based termination events associated with the agreement have been eliminated.

Pension and OPEB

Despite some successful pension reform efforts, Puerto Rico also has an outsized pension liability. Its adjusted net pension liability of $41.3 billion for fiscal 2013 equaled 223% of revenues, compared with a US state median of 60% of revenues. Moody's ANPL adjusts reported pension numbers by applying a market-derived discount rate, a common 20-year amortization period and an assumed 13-year duration to value plan liabilities. On an as-reported basis, pension liabilities of the commonwealth's three main systems (ERS, TRS and JRS) increased 44%, to $40.4 billion, during the 2009-2012 period. Plan assets, meanwhile, fell 56% from 2007 through 2013, dropping to $2.7 billion as of June 30, 2013. On April 11, 2014, the Puerto Rican Supreme Court struck down a key pension reform enacted in 2013. The law (Act 160) was intended to keep the Teachers Retirement System and Judicial Retirement System solvent by raising minimum retirement ages, and employee contribution requirements. It also implemented defined contribution plan for future benefit accruals. The court held that these reforms, which were similar to reforms to the Employees Retirement System (ERS) that the court had previously assented to, impaired contractual obligation to current employees. The TRS may fully deplete its assets in 2020, without the reforms, based on our analysis. The projected timeline is closely aligned with that of the plan's actuaries. ERS is also at risk of fully depleting assets around the same time, particularly if the plan experiences one to two years of adverse investment performance and the commonwealth continues to neglect its additional contribution requirements. Shifting to covering the cost of benefits from operating revenue will pose a new and significant fiscal burden on the commonwealth; combined benefits and expenses of the two major plans (TRS and ERS) would amount to $2.3 billion in 2021.

MANAGEMENT AND GOVERNANCE

Puerto Rico's governance is characterized by lack of adherence to certain best practices, including the use of binding consensus revenue forecasts and multiyear financial plans and the publication of timely audited financial statements or debt affordability analyses. The commonwealth has no requirement to maintain or replenish a reserve fund. Puerto Rico benefits from the absence of constitutional caps on revenue and spending increases, or the requirement for legislative super-majorities to adopt a budget or raise tax. Moreover, it is not vulnerable to voter initiatives or referenda that could pose budgetary risk.

KEY STATISTICS

- Per capita income relative to U.S. average: 39.1%

- Industrial diversity (1=most diverse): 0.49

- Employment volatility (U.S.=100): 120

- Available balances as % of operating revenue (5-yr. avg.): -15.1%

- Total governmental debt/total governmental revenue: 256.7%

- 3-year avg. adjusted net pension liability/total governmental revenue: 223.4%

OBLIGOR PROFILE

Puerto Rico is a territory of the United States. It has issued general obligation bonds, subject-to-appropriation bonds, pension funding bonds, sales tax revenue bonds and bonds backed by revenues of public utilities and authorities.

LEGAL SECURITY

This action affects many of the commonwealth's securities, including the GO debt, which is a full faith and credit obligation of the commonwealth.

USE OF PROCEEDS

Not applicable.

RATINGS AFFECTED

Downgraded to B3

-COFINA Senior (from Ba3)

-Puerto Rico Industrial Development Corp (PRIDCO, from Ba3)

Downgraded to Caa1

-General Obligation and guaranteed debt (from B2)

-Government Development Bank Notes (from B3)

-Municipal Finance Agency (from B3)

-COFINA Subordinate (from B1)

Downgraded to Caa2

-Appropriation debt (from B3)

-Employees Retirement System Pension Bonds (from B3)

-Infrastructure Financing Authority (from B3)

-Convention Center District Authority (from Caa1)

-Highway Transportation Authority Senior (from Caa1)

Affirmed at Caa1

-Aqueduct and Sewer Authority (Caa1)

Affirmed at Caa2

-Highway and Transportation Authority Subordinate (Caa2)

RATING METHODOLOGIES

The principal methodology used in rating the Commonwealth of Puerto Rico, Puerto Rico Municipal Finance Agency, Puerto Rico Highway & Transportation Authority, Puerto Rico Aqueduct and Sewer Authority, Puerto Rico Infrastructure Financing Authority, Government Development Bank for Puerto Rico, Convention Center District Authority, and Puerto Rico Public Finance Corporation debt was US States Rating Methodology published in April 2013.

The additional methodology used in rating the Puerto Rico Highway & Transportation Authority debt, the Puerto Rico Infrastructure Financing Authority debt, and the Puerto Rico Convention Center District Authority debt was US Public Finance Special Tax Methodology published in January 2014.

The additional methodology used in rating the Puerto Rico Aqueduct and Sewer Authority was US Municipal Utility Revenue Debt published in December 2014.

The additional methodology used in rating the Puerto Rico Public Finance Corporation debt was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011.

The principal methodology used in rating the Puerto Rico Sales Tax Financing Corporation debt and the Puerto Rico Industrial Development Company debt was US Public Finance Special Tax Methodology published in January 2014. An additional methodology used in this rating was US States Rating Methodology published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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7.1.14_Moodys COFINA

Tuesday, December 18, 2018
12:44 PM

MOODY'S
INVESTORS SERVICE

Rating Update: **Moody's downgrades Puerto Rico GOs to B2 from Ba2, COFINA Senior-Sub to Ba3-B1; outlooks negative**

01 Jul 2014

Downgrades of Electric Power Authority (PREPA) and other Puerto Rico entities affect over $61 billion total

PUERTO RICO (COMMONWEALTH OF)
State Governments (including Puerto Rico and US Territories)
PR

Opinion

NEW YORK, July 01, 2014 --Moody's Investors Service has downgraded the Commonwealth of Puerto Rico to B2 from Ba2, affecting $14.4 billion of outstanding general obligation (GO) bonds. Concurrently, commonwealth agencies and public corporations have been downgraded, affecting about $46 billion of non-GO bonds, including $15.6 billion of senior- and subordinate-lien bonds issued by the Sales-Tax Financing Corporation (COFINA), which respectively were lowered to Ba3 and B1. The Puerto Rico Electric Power Authority (PREPA) was downgraded to Caa2 from Ba3, while the Puerto Rico Aqueduct and Sewer Authority (PRASA) was downgraded to Caa1 from Ba3. The Puerto Rico Highway and Transportation Authority (PRHTA) was downgraded to Caa1 (senior 1998 resolution and 1968 resolution) from Ba3, and to Caa2 from B1 (subordinate 1998 resolution). For PREPA, PRHTA and PRASA, the newly lowered ratings remain under review for possible further downgrade. The debt of the Government Development Bank (GDB) was downgraded to B3 from Ba2, and the debt of the University of Puerto Rico was downgraded to Caa1 and Caa2. The outlook for the GDB as well as for commonwealth GO and related debt remains negative. All the rating and outlook changes incorporated in this action are listed at the end of this release.

SUMMARY RATING RATIONALE

The downgrades of Puerto Rico and its debt-issuing entities follow the commonwealth's enactment of a law (the Puerto Rico Public Corporation Debt Enforcement and Recovery Act) that will allow public corporations to defer or reduce payments on outstanding bonds. By providing for defaults by certain issuers that the central government has long supported, Puerto Rico's new law marks the end of the commonwealth's long history of taking actions needed to support its debt. It signals a depleted capacity for revenue increases and austerity measures, and a new preference for shifting fiscal pressures to creditors, which, in our view, has implications for all of Puerto Rico's debt, including that of the central government. Application of the law may further limit the commonwealth's market access, leaving it more vulnerable to financial risk and unable to fund capital projects.

The COFINA ratings have now been positioned closer to the GO, reflecting their increased susceptibility to any action that impairs bondholders' claims on sales tax revenues if the commonwealth invokes its police powers and acts to protect the health and safety of the general public ahead of bondholders. The new GO and COFINA bond ratings face heightened risk of default, given the commonwealth's stagnant economic conditions and disproportionately large debt burden.

Ratings now assigned to PREPA, PRASA and PRHTA and the Puerto Rico Convention Center District Authority are under review for further downgrade, reflect the escalating risk that these entities could default voluntarily under the new restructuring law. We have also lowered ratings on certain bonds previously considered as equivalent to the general obligation rating, or "capped" at the GO rating, because of their increased risk of default and potentially lower recovery rates than the GO. The ratings on Puerto Rico's pension funding bonds, as well as debt issued by the GDB and the Municipal Finance Agency, and the Puerto Rico Infrastructure Financing Authority (PRIFA, bonds secured by rum tax remittances from the federal government) were downgraded to B3 from Ba2 and are now rated one notch below the GO bonds due to our view that the expected loss rates on these securities are now higher. GDB has direct exposure to the risks implicit in the restructuring law, given its substantial loans to PRHTA and other public corporations.

DETAILED CREDIT DISCUSSION

DEBT RESTRUCTURING LAW'S PASSAGE SIGNALS LIKELIHOOD OF AUTHORITY DEBT DEFAULT

The governor of Puerto Rico last week signed legislation that we view as a declaration of intent to allow public-corporation debt restructuring. Neither Puerto Rico nor its municipalities (including local governments and public corporations) can seek relief from creditors under the US Bankruptcy Code. The new Debt Enforcement and Recovery Act gives public corporations two ways to reduce their obligations. First, the corporations can negotiate new terms that are binding on all parties. Second, a Puerto Rico court can impose new terms to benefit an authorized governmental organization. This non-

consensual approach would allow debt repudiation "to the extent necessary to enable each entity to continue to fulfill its vital public functions." Under the law, a public corporation could initiate this type of restructuring by filing a petition for relief. The entity seeking relief would have to demonstrate it was "at serious risk" of being unable to make timely debt service payments "while performing its public functions" with no central government aid. Initiating the process would also require consent of the commonwealth's fiscal agent, the GDB. The law could be used to reject or modify collective bargaining agreements, but pension and retiree health benefit plan assets could not be affected, and the law would require full payment of wages and salaries.

PREPA MOST LIKELY TO MAKE USE OF RESTRUCTURING PROCESS IN THE NEAR TERM

We view PREPA as most likely to make immediate use of the new law, given its financial pressures, a view that is reflected in the lower rating now assigned to PREPA (Caa2). PREPA not only has immediate cash needs to repay maturing bank lines and procure oil, but it also suffers from existing high leverage, negative free cash flow, sizeable capital investment needs as it converts generation facilities to natural gas from oil. On its two main bank lines maturing in July and August, PREPA owes approximately $671 million combined. If the commercial banks do not extend their lines, and they demand repayment, PREPA will not be able to repay the advances from its own available funds. PREPA also faces other significant challenges, in the form of high electricity rates and growing accounts receivable balances.

LAW AFFECTS GENERAL OBLIGATION BONDS, RELATED CREDIT STRUCTURES

The text of the new legislation emphasizes that its debt restructuring framework will not be available for all of the commonwealth's public debt. The law specifically does not apply to the commonwealth itself, its municipalities, or to the GDB, COFINA, or public pension systems. However, the commonwealth may be challenged to maintain market access and investor confidence if its largest public corporations negotiate new debt terms or otherwise impair bondholder rights and remedies. A restructuring that involves an extension of maturities with the same or lower coupons, or reduces the security of the bonds is a default by Moody's definition.

The law signals an end to the commonwealth's long history of providing liquidity, capital financing and operating subsidies, often through the GDB, to various public corporations. PRHTA has accumulated $2 billion of fully drawn bank lines owed to GDB with interest only payable and no scheduled repayment terms. Most recently, GDB purchased $200 million of variable-rate demand obligation bonds for which the supporting bank facility expired on May 27.

PRHTA and PRASA are closely aligned with the central government from a governance and management perspective. Puerto Rico's governor appoints five of PRASA's nine board members and also appoints PRHTA's executive director, and PRHTA is overseen by the commonwealth's Department of Transportation and Public Works. The governor likewise names a majority of PREPA's nine board members (the governor's Secretary of the Department of Transportation and Public Works serves on the board ex officio, and the governor also appoints another four board members).

UNIVERSITY OF PUERTO RICO'S DOWNGRADE TO Caa1 REFLECTS COMMONWEALTH RATING AND HEIGHTENED PRESSURE ON MOST REVENUE

University of Puerto Rico (UPR) is not eligible to restructure debt under the new law. We have nevertheless lowered ratings on its University System Revenue Bonds and lease-backed Educational Facilities Revenue Bonds, 2000 Series A, to Caa1 and Caa2, respectively, from Ba3 and B1. The University System Revenue Bonds are now rated two notches lower than the B2 commonwealth rating. The ratings' outlook is negative. These actions for UPR reflect heightened downward pressure on the university's funding sources, notably on its commonwealth funding and tuition. The ratings incorporate the university's high reliance on commonwealth appropriations, plus its constrained ability and willingness to raise tuition and other auxiliary revenues sufficient to mitigate cuts. Statutorily mandated Commonwealth funding represents an extraordinarily high 72% of fiscal year 2013 operating revenues. Other factors expressed in the university's ratings and negative outlook include its historical reliance on GDB (B3 negative) for liquidity and the close governance oversight from the commonwealth that can affect operations and cash flow, as shown by the governor's replacement of both the board of trustees and president in 2013.

COMMONWEALTH'S WILLINGNESS TO IMPOSE REVENUE INCREASES, AUSTERITY MEASURES IS DEPLETED

While not applying directly to Puerto Rico's GO debt, the law makes the legal case for a "state of fiscal emergency" affecting the central government as a potential justification for debt restructuring by authorized public corporations. Immediate challenges, the law states, constitute a "real and palpable threat to the government's ability to protect and promote the general welfare of the people of Puerto Rico." The law reasons that while public corporations must now end reliance on the central government, their self-sufficiency "may not be achieved through increases in basic rates, which are already excessively high, [and] hinder and depress economic activity and development." This invocation of police powers effectively ends a long period in which the commonwealth was willing to shore up the financial position of its public corporations through new revenue and austerity measures. By declaring its intent to contemplate public corporation debt restructurings, the commonwealth is indicating that it lacks economic or political capacity for further revenue increases or austerity measures.

IMPLEMENTATION MAY DECREASE MARKET ACCESS, SPUR BONDHOLDER LITIGATION

A debt restructuring or default by one or more authorities probably will exacerbate the commonwealth's market-access challenges, affecting its ability to raise money through the sale of GO or other bonds. This would leave the commonwealth increasingly vulnerable to financial risk and unable to finance capital projects. The law also will provoke litigation. Some bondholder lawsuits, questioning whether the law violates the US Constitution, have reportedly been filed already.

RATING REVIEWS WILL FOCUS ON AUTHORITIES THAT MAY MAKE USE OF RESTRUCTURING LAW

Last week we downgraded PREPA, PRHTA and PRASA, and put the authorities' ratings under review for possible further downgrade. Our review of PREPA will continue to focus on near-term liquidity demands from maturing bank lines of credit, with $671 million of debt outstanding, as well as long-term pressures such as chronic negative free-cash flow, high non-payment rates, and growing accounts receivable. Our actions on PREPA, PRASA and PRHTA - including the review for further downgrade - incorporate our view that one or more of these entities may make use of the new restructuring law, leading to defaults on their bonds. During the review period, we expect to assess the likelihood of such an event, as well as the fundamental credit positions of the authorities, including short-term liquidity needs and long-term economic viability of the enterprises. Given the varying circumstances of the authorities, it is possible that the length of review will not be uniform. We will provide additional analysis and commentary on these actions in the next week.

SUMMARY OF DEBT AFFECTED BY LEGISLATION

Downgraded to Ba3 from Baa1; outlook negative

--COFINA Senior

-- Industrial Development (PRIDCO)

Downgraded to B1 from Baa2; outlook negative

--COFINA Subordinate

Downgraded to B2 from Ba2; outlook negative

--General Obligation

Downgraded to B3 from Ba2; outlook negative

--GDB notes

--Infrastructure Financing Authority (PRIFA)

--Municipal Finance Agency

--Pension funding bonds

Downgraded to B3 from Ba3; outlook negative

--Appropriation debt of commonwealth

Downgraded to Caa1 from Ba3; ratings under review

-- Aqueduct & Sewer Authority(PRASA)

-- Highway & Transportation (PRHTA)

Downgraded to Caa1 from Ba2; outlook under review

Convention Ctr (Hotel Occupancy Tax)

Downgraded to Caa2 from Ba3; ratings under review

-- Electric Power Authority (PREPA)

Downgraded to Caa2 from B1; ratings under review

-- PRHTA Subordinate-lien

Downgraded to Caa1 from Ba3; outlook negative

--University of Puerto Rico (System)

Downgraded to Caa2 from B1; outlook negative

--University of Puerto Rico (Facilities)

RATING METHODOLOGIES

The principal methodology used in rating the Commonwealth of Puerto Rico, Puerto Rico Municipal Finance Agency, Puerto Rico Public Buildings Authority, Puerto Rico Highway & Transportation Authority, Puerto Rico Aqueduct and Sewer Authority, Puerto Rico Infrastructure Financing Authority, Government Development Bank for Puerto Rico, Puerto Rico Public Finance Corporation, Puerto Rico Convention Center District Authority and Puerto Rico Employees Retirement System debt was US States Rating Methodology published in April 2013.

The additional methodology used in rating the Puerto Rico Highway & Transportation Authority debt, the Puerto Rico Infrastructure Financing Authority debt, and the Puerto Rico Convention Center District Authority debt was US Public Finance Special Tax Methodology published in January 2014.

The additional methodology used in rating the Puerto Rico Aqueduct and Sewer Authority debt was Analytical Framework For Water And Sewer System Ratings published in August 1999.

The additional methodology used in rating the Government Development Bank for Puerto Rico debt was Rating Transactions Based on the Credit Substitution Approach: Letter of Credit backed, Insured and Guaranteed Debts published in March 2013.

The additional methodology used in rating the appropriation debt was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011.

The principal methodology used in rating the Puerto Rico Sales Tax Financing Corporation debt and the Puerto Rico Industrial Development Company debt was US Public Finance Special Tax Methodology published in January 2014. An additional methodology used in this rating was US States Rating Methodology published in April 2013.

The principal methodology used in rating the Puerto Rico Electric Power Authority debt was U.S. Public Power Electric Utilities with Generation Ownership Exposure published in November 2011.

The principal methodology used in rating the University of Puerto Rico debt was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. The additional methodology used in rating the lease debt was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011.

Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

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12.11.13_Moodys COFINA

Tuesday, December 18, 2018
1:30 PM

MOODY'S
INVESTORS SERVICE

Rating Update: Moody's places Puerto Rico general obligation and related bonds on review for downgrade

11 Dec 2013

Approximately $52 billion of rated debt affected

PUERTO RICO (COMMONWEALTH OF)
State Governments (including Puerto Rico and US Territories)
PR

Opinion

NOTE: On December 12, 2013, the report was revised as follows: Correction to First sentence of the Opinion. Correction to First sentence under SUMMARY RATING RATIONALE. Revised release follows.

NEW YORK, December 11, 2013 --Moody's Investors Service has placed on review for downgrade the general obligation (G.O.) Baa3 rating of the Commonwealth of Puerto Rico. At the same time, ratings that are capped by or linked to the commonwealth's G.O. rating were also placed on review, including the Puerto Rico Sales Tax Financing Corporation's (COFINA's) senior and junior lien bonds.

SUMMARY RATING RATIONALE

Downward pressure on the rating arises from the Commonwealth's weakening liquidity, increasing reliance on external short-term debt, and constrained market access, within the context of a weakened and now sluggish economy. These developments exacerbate the longstanding financial strain brought by the commonwealth's very high debt load and pension obligations, as well as its chronic budget deficits.

During the review period, we will focus on the following:

--The ability and willingness of the commonwealth to access the long-term capital markets

--Key economic indicators, including employment data, retail sales and the island's Economic Activity Index (EAI)

--Financial performance in coming months, including key December revenues

--Legislative actions to reform the Teachers' Retirement System (TRS), shore up liquidity, or take any other actions to preserve fiscal stability

--The proposed budget for fiscal year 2015

DETAILED CREDIT DISCUSSION

LIQUIDITY NARROW FOR FISCAL 2014; VOLATILE MARKET CONDITIONS HAVE REDUCED FINANCIAL FLEXIBILITY

Our liquidity analysis of the Commonwealth focuses on available liquid assets relative to anticipated and unanticipated liquidity demands on the government. These demands include debt service, budgetary needs and potential collateral calls related to swap obligations should it become necessary.

Sharply higher credit spreads have caused the commonwealth to scale back on planned long-term financings in fiscal 2014 and instead rely on short-term financings, reducing its liquidity, as it waits for more favorable market conditions.

While liquid assets at the GDB exceeded $3.7 billion at the end of fiscal 2012, that amount has narrowed significantly due to continuing loans to the commonwealth and other authorities and the inability to refinance certain lines in the long-term market. The GDB reports that the commonwealth's agencies, public corporations and municipalities maintain approximately $2.8 billion at private banking institutions, a portion of which could be moved to the GDB on short notice. As the GDB acquires more cash through an increase in deposits, its capacity to make loans to other governmental entities expands.

A third lien COFINA sales tax bond issuance has also been delayed and would provide more permanent financing to fund this year's operating budget deficit ($820 million), repay various short-term debts that funded last year's budget deficit and reduce refinancing risk this year.

The commonwealth has swaps and financings that include collateral and acceleration provisions in the event of a downgrade by any one of three major credit rating agencies. We estimate that a one notch downgrade could result in liquidity demands of up to $1 billion, an amount we believe can be covered by current liquidity, but would significantly narrow remaining net liquid assets.

ECONOMY STILL WEAK WITH ONLY NASCENT GROWTH DRIVERS

The commonwealth has been in recession since 2006, suffering from a steep decline in its key pharmaceutical sector. Some recent economic indicators continue to be negative, including job losses of close to 5% on a year-over-year basis, and the real GNP growth estimate for fiscal 2014 was recently revised downward to -0.8%. About 40% of the job losses are from the government sector and include public employees who took early retirement options after reform of the pension plan as well as temporary employees hired during the 2012 election. Population, which declined by 3% from 2005 to 2011, is expected to continue to decline. Unemployment ticked back up to 14.7% in October after reaching a low of 13.2% in June 2013.

Some economic indicators, however, may point to the start of economic stabilization. The island's Economic Activity Index, while still down on a year-over-year basis, was up on a monthly basis for the last two months (September and October). Retail sales and auto sales are reported to be up, and the labor force continues to grow. In addition, the commonwealth's new economic plan targets job creation in its agricultural and small business sectors and stabilization in the dominant pharmaceutical sector through a combination of tax incentives, wage subsidies, outreach and infrastructure improvements. New emphasis on medical devices - a natural offshoot from strengths in pharmaceutical production - and "under the flag" operations in aerospace and military apparel may spur some job creation over the next 5 years, but the scale of this growth is uncertain.

Tourism has been a good performer, but it remains a relatively small part of the economy.

INITIAL FISCAL 2014 REVENUE PERFORMANCE HAS BEEN GOOD; BUDGET RISKS REMAIN

Fiscal 2014 general fund revenue growth (July through October) has been good at 5.2% ($126 million) over estimates and 16.1% ($355 million) over the same period for fiscal 2013. Sales tax revenues attributable to COFINA are up 6.5% ($24.5 million) through October over fiscal 2013, reflecting a legislated expansion of the taxable base, but are 1.4% ($5.7 million) below estimates. The commonwealth has stepped up enforcement to address this shortfall. Tax revenue collections for the year are concentrated in three months (December, April and June) so revenue projections for the remainder of the year present additional downside risk to widening the currently projected $820 million fiscal 2014 budget deficit.

DEBT LEVELS ARE HIGH, ALTHOUGH GROWTH IN DEBT HAS MODERATED

As of September 30, 2013, debt ratios for the commonwealth are very high, with net tax-supported debt at over $14,000 per capita and approximately 87% of personal income, significantly higher than any US state, and also reflective of the relatively low per capita incomes in the commonwealth. Net tax-supported debt as of September 30, 2013 was $54.6 billion, essentially unchanged since December 2012 but up 67% over since 2006. While residents of Puerto Rico do not pay most federal taxes and therefore do not carry the burden of US federal debt, debt measures are also relatively high for similarly rated sovereigns.

WHAT COULD MAKE THE RATING GO DOWN

Given the current pressures on the rating, the review is likely to result either in a confirmation of current rating levels or a downgrade. A downgrade would be increasingly likely if the review produced evidence of:

--Failure to access the public debt market with a long-term borrowing

--Declines in liquidity

--Financial underperformance in coming months

--Economic indicators in coming months that point to a further downturn in the economy

--Inability of government to achieve needed reform of TRS.

REVIEW AFFECTS MULTIPLE CREDITS

The review affects general obligation bonds of the commonwealth, and also affects bonds whose ratings are determined by or linked to that of the commonwealth. Affected credits are listed below.

RATED Baa3 ON REVIEW FOR DOWNGRADE

--General obligation bonds

--Public Building Authority Bonds

--Pension funding bonds

--Puerto Rico Infrastructure Finance Authority (PRIFA) Special Tax Revenue Bonds

--Convention Center District Authority Hotel Occupancy Tax Revenue Bonds

--Government Development Bank (GDB) Senior Notes

--Municipal Finance Authority (MFA) Bonds

--Puerto Rico Highway and Transportation Authority (PRHTA) Transportation Revenue Bonds

--Puerto Rico Aqueduct and Sewer Authority (PRASA) Commonwealth Guaranteed Bonds

RATED A2 ON REVIEW FOR DOWNGRADE

--Commonwealth of Puerto Rico Sales Tax Financing Corporation Senior Lien Bonds

RATED A3 ON REVIEW FOR DOWNGRADE

--Commonwealth of Puerto Rico Sales Tax Financing Corporation Junior Lien Bonds

RATED Baa2 ON REVIEW FOR DOWNGRADE

--Puerto Rico Highway and Transportation Authority (PRHTA) Highway Revenue Bonds

RATED Ba1 ON REVIEW FOR POSSIBLE DOWNGRADE

--Puerto Rico Public Finance Corporation (PRPFC) Commonwealth Appropriation Bonds

--Puerto Rico Aqueduct and Sewer Authority (PRASA) Revenue Bonds

--Puerto Rico Highway and Transportation Authority (PRHTA) Subordinate Transportation Revenue Bonds

The principal methodology used in rating the Puerto Rico Sales Tax Financing Corporation bonds was the US Public Finance Special Tax Methodology published in March 2012. The principal methodology used in rating the other Puerto Rico (Commonwealth of) bonds was the US States Rating Methodology published in April 2013. The additional methodology used in rating the Government Development Bank for Puerto Rico was Rating Transactions Based on the Credit Substitution Approach: Letter of Credit backed, Insured and Guaranteed Debts published in March 2013. The additional methodology used in rating the Puerto Rico Public Finance Corporation appropriation debt was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. The additional methodology used in rating the Puerto Rico Highway and Transportation Authority bonds, the Puerto Rico Convention Center Authority Hotel Occupancy Tax Revenue bonds and the Puerto Rico Infrastructure Finance Authority Special Tax Revenue bonds was the US Public Finance Special Tax Methodology published in March 2012. The additional methodology used in rating the Puerto Rico Aqueduct and Sewer Authority was the Analytical Framework for Water and Sewer System Ratings published in August 1999.

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Tuesday, December 18, 2018
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MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades $6.8 billion Puerto Rico Senior Sales Tax Revenue Bonds to Aa3 from Aa2 and downgrades $9.2 billion subordinate bonds to A3 from A1

18 Jul 2012

Outlook is stable

New York, July 18, 2012 -- Moody's Investors Service has downgraded the Puerto Rico Sales Tax Financing Corporation's (COFINA) outstanding senior sales tax revenue bonds to Aa3 from Aa2 and outstanding subordinate sales tax revenue bonds to A3 from A1 . The rating changes impact $16 billion of outstanding bonds.

SUMMARY RATING RATIONALE

The downgrades reflect our view of the increased risk in the bonds' escalating debt service structure as a result of the effects on Puerto Rico's economy of the extended recession coupled with structural changes in the manufacturing sector due to the phase-out of territorial tax benefits and exposure to greater global competitive forces. The combined result is that the commonwealth's economy is expected to underperform compared to the US economy, decreasing the likelihood that sales tax collections will achieve the growth necessary to maintain levels of debt service coverage consistent with prior rating levels and compared with other credits at that rating level. The senior bonds were downgraded by one notch to Aa3 to reflect our expectation that coverage will decline in the future to levels more consistent with the new rating level. The rating on the subordinate bonds was lowered by two notches, to A3, to reflect our expectation that the lower revenue growth rate will make total debt service coverage narrow considerably.

The rating also reflects the bonds' strong legal structure which includes the first right to certain sales taxes collected in the Commonwealth of Puerto Rico, a collection mechanism that separates those monies from the General Fund, a non-impairment covenant by the commonwealth and an effectively closed lien. We note that revenue collections have been below initial projections even though enforcement of the tax has recently improved significantly.

STRENGTHS

* A strong legal structure, including a pledge of the larger of a fixed Base Amount each year or 2.75% of the first dollars collected of the commonwealth's 7% sales tax, and a collection mechanism that segregates those monies from the General Fund.

* A broad and diversified economic base that supports the sales tax pledge, including many products and services, but excluding the more volatile sectors of automobiles and energy, and demonstrated long-term growth of personal consumption expenditures.

* Non-impairment covenant by the commonwealth; legal opinions that the pledged sales tax revenues are not available to its General Fund.

CHALLENGES

* Escalating debt service structure requires growth in revenues to meet all debt service in the future.

* Expected declining coverage.

* Legislature could change the sales tax to decrease available revenues, although subsequent legislation made this more difficult.

* Collection rates have historically been estimated at around 60% (although enforcement has recently improved).

* Long maturities (senior bonds have 45-year final maturity)

Outlook

The rating outlook for the Sales Tax Revenue Bonds is stable. The outlook reflects our expectation that sales tax revenue growth will continue as enforcement efforts proceed, and that in the long term the sales tax collections will grow at a rate sufficient to maintain strong coverage of senior debt service and adequate coverage of total COFINA debt service. The outlook also reflects the legal and structural insulation of COFINA from the general finances of the commonwealth.

WHAT COULD MAKE THE RATING GO UP

-Dramatic growth in sales tax revenues, leading to a significant increase in coverage

-Increase in the sales tax rate without increasing ability to leverage bonds

WHAT COULD MAKE THE RATING GO DOWN

-Decline in sales tax revenues, leading to decreased coverage

-Legislative change to sales tax that decreases available revenues

-Significant deterioration in the credit strength of the Commonwealth of Puerto Rico causing significant economic dislocation

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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5:24 PM

MOODY'S
INVESTORS SERVICE

SPECIAL COMMENT

Key Drivers of COFINA Downgrade Review

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Summary

On April 17, 2012, Moody's placed the Puerto Rico Sales Tax Financing Corporation's (COFINA) senior and subordinated bond ratings (Aa2 and A1, respectively) on review for possible downgrade. This report provides further insight into the analytical considerations that will drive our review in the coming weeks.

While we will be evaluating the credit in depth during the review period, our key focus will be on the risk factors related to revenue growth. COFINA's escalating debt service structure requires some level of growth in the pledged revenues in order to meet all debt service obligations over the life of the bonds, particularly for the subordinate bonds. The Commonwealth of Puerto Rico has been in a long and protracted recession for the past six years. While there is currently ample debt service coverage from the pledged revenues, continued periods of no revenue growth will erode coverage over time.

We will be reviewing sales tax growth over the life of the debt in light of a number of risk factors, including: 1) a sluggish overall economy in the commonwealth that has not kept pace with recovery in the rest of the US, 2) essentially flat performance in the pledged sales tax revenues to date that has not met expectations, 3) recent declines in Puerto Rico's population, and 4) ongoing efforts to improve sales tax collection compliance and enforcement.

COFINA's subordinated bonds are rated three notches above the GO rating for the commonwealth and its senior bonds are rated five notches higher. As we stated in the US Special Tax Methodology published March 27, 2012, "We do not explicitly limit the number of notches by which a special tax rating can exceed its [parent] general obligation rating. However, the more the special tax revenue stream is tied to the general economy, the lesser the degree of rating separation will likely exist between the special tax and the general obligation ratings." The ultimate degree of separation between special tax and general obligation ratings is determined on a case-by-case basis.

In the case of COFINA, the tax base for the sales tax bonds is shared with that of the commonwealth and therefore economic challenges in the commonwealth likely lead to strain in the COFINA tax base.

Unique Credit Characteristics

All credit ratings assigned by Moody's are evaluated against a published methodology. Moody's uses the special tax methodology to help gauge the credit quality of a number of diverse special tax securities, but each credit's characteristics are assessed in their own context. COFINA has a number of characteristics that are unlike most other special tax credits.

For example, under COFINA's legal structure, there is no remaining capacity to increase annual debt service, in some respects "closing" the lien. At the same time, COFINA's structure incorporates escalating debt service that grows three-fold by 2041. In general, a closed lien indicates that no additional debt can be issued to weaken debt service coverage. In the case of COFINA, while no additional debt can be issued, it is still possible for debt service coverage to fall if revenues do not demonstrate consistent growth and ultimately triple over 29 years. Therefore, we will be reviewing coverage for each lien in light of recent and projected performance of the base.

Another structural feature is the commonwealth's pledge not to reduce the sales tax without pledging an alternate source of revenue. Within the municipal market, such non-impairment features help improve confidence that the pledged revenues will continue to cover debt service over the life of the bonds.

Other credit characteristics include:

» Relatively limited performance history of the sales tax

» Economic recession in the commonwealth since 2006

» An estimated collection rate of under 60%

» Flat or slightly negative population growth in the commonwealth

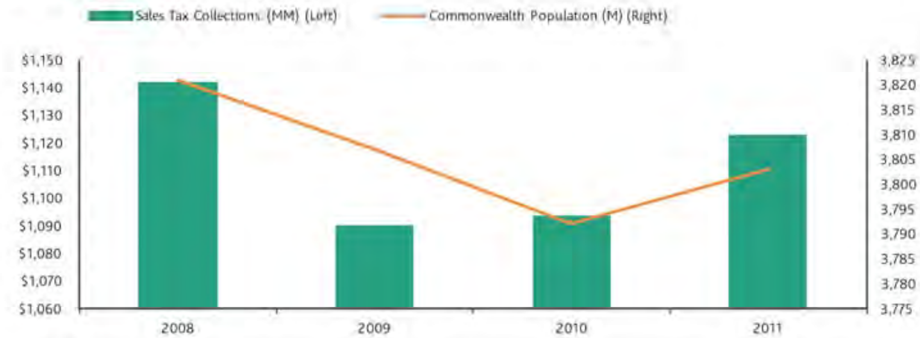
Revenue Projections versus Actual Performance

Puerto Rico's reduced economic activity over the past six years suggests the need for more conservative projections going forward. Since the initial rating, sales tax collections have been lower than initially projected and by 2011 collections were basically flat to 2008 levels. In 2011, total revenues collected under Puerto Rico's 5.5% sales tax were $1.12 billion, compared with $1.14 billion collected in 2008. Sales tax collections were down 4.6% in 2009, essentially flat in 2010, and up modestly at 2.7% in 2011. Sales taxes were up 2.8% year-over-year as of April 2012. Since the tax's inception, the average annual growth rate has been 0.1%, as compared to (1) the 4% growth in scheduled annual debt service, (2) the 1.66% growth required to meet all debt service obligations (i.e. break even), and (3) the 3.2% average annual growth in personal consumer expenditures between 2008 and 2010. The flat growth of sales tax revenues was unexpected considering from 1947 to 2010, personal consumer expenditures grew at an average annual rate of 7.4% in constant dollars.

Current debt service coverage is 6.3 times for the senior bonds and 2.0 times for the senior and subordinated bonds together – below our original projections and weak relative to like rated peers. Assuming no growth in revenues, the current level of sales taxes would be insufficient to meet debt service on the subordinate bonds beginning in 2029. In a no-growth environment for the duration of the senior bonds, the current level of sales taxes is sufficient to meet debt service on the very long-dated

senior bonds until 2054, though does not cover debt service in the last three years until final maturity in 2057.

FIGURE 1
Sales Tax Collections and Population



Source: Moody's Analytics; COFINA

Focus of the Review

During the review, we will focus on COFINA's recent historical and projected debt service coverage given the commonwealth's economic experience. We will establish an updated base case for revenue growth that incorporates our most updated expectations for economic activity, population growth, enforcement of the tax, inflation and Puerto Rico's new tax regime.

The review will also assess key risks that COFINA faces, primarily a challenging economic growth environment in Puerto Rico. While COFINA is largely insulated from the commonwealth's broader budget and financial problems, it still must be viewed in the larger context of the commonwealth's financial and economic environment.

Report Number: 141669

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MOODY'S INVESTORS SERVICE

4.17.12 Moodys COFINA

Tuesday, December 18, 2018
3:20 PM

MOODY'S
INVESTORS SERVICE

Announcement: MOODY'S PLACES PUERTO RICO SENIOR SALES TAX REVENUE BONDS' Aa2 RATING AND SUBORDINATE SALES TAX REVENUE BONDS' A1 RATING ON REVIEW FOR POSSIBLE DOWNGRADE

17 Apr 2012

$6.8 BILLION SENIOR DEBT IS AFFECTED; $9.2 BILLION OF SUBORDINATED DEBT IS AFFECTED

New York, April 17, 2012 -- Moody's Investors Service has placed the ratings of the Puerto Rico Sales Tax Financing Corporation's outstanding senior and subordinated sales tax revenue bonds on review for possible downgrade. The senior and subordinated bonds are rated Aa2 and A1, respectively. Moody's expects to conduct further analysis of expectations for future economic and revenue growth and debt service coverage, all within the framework of the recently published US Public Finance Special Tax Methodology which has prompted reviews of our special tax credits in the municipal sector. We expect to conclude the review within 90 days. The results of the analysis could result in rating changes on either or both of the liens, possibly of more than one notch.

SUMMARY RATING RATIONALE

The bonds are on review for possible downgrade due to the need for additional analysis prompted by the application of Moody's revised US Public Finance Special Tax Methodology, published March 27, 2012. For additional information on the Puerto Rico Sales Tax Financing Corporation, please see our report dated November 23, 2011.

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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4.16.10 Moodys COFINA

Thursday, December 20, 2018
5:26 PM

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SPECIAL COMMENT

Key Drivers of COFINA Downgrade Review

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Summary

On April 17, 2012, Moody's placed the Puerto Rico Sales Tax Financing Corporation's (COFINA) senior and subordinated bond ratings (Aa2 and A1, respectively) on review for possible downgrade. This report provides further insight into the analytical considerations that will drive our review in the coming weeks.

While we will be evaluating the credit in depth during the review period, our key focus will be on the risk factors related to revenue growth. COFINA's escalating debt service structure requires some level of growth in the pledged revenues in order to meet all debt service obligations over the life of the bonds, particularly for the subordinate bonds. The Commonwealth of Puerto Rico has been in a long and protracted recession for the past six years. While there is currently ample debt service coverage from the pledged revenues, continued periods of no revenue growth will erode coverage over time.

We will be reviewing sales tax growth over the life of the debt in light of a number of risk factors, including: 1) a sluggish overall economy in the commonwealth that has not kept pace with recovery in the rest of the US, 2) essentially flat performance in the pledged sales tax revenues to date that has not met expectations, 3) recent declines in Puerto Rico's population, and 4) ongoing efforts to improve sales tax collection compliance and enforcement.

COFINA's subordinated bonds are rated three notches above the GO rating for the commonwealth and its senior bonds are rated five notches higher. As we stated in the US Special Tax Methodology published March 27, 2012, "We do not explicitly limit the number of notches by which a special tax rating can exceed its [parent] general obligation rating. However, the more the special tax revenue stream is tied to the general economy, the lesser the degree of rating separation will likely exist between the special tax and the general obligation ratings." The ultimate degree of separation between special tax and general obligation ratings is determined on a case-by-case basis.

In the case of COFINA, the tax base for the sales tax bonds is shared with that of the commonwealth and therefore economic challenges in the commonwealth likely lead to strain in the COFINA tax base.

Unique Credit Characteristics

All credit ratings assigned by Moody's are evaluated against a published methodology. Moody's uses the special tax methodology to help gauge the credit quality of a number of diverse special tax securities, but each credit's characteristics are assessed in their own context. COFINA has a number of characteristics that are unlike most other special tax credits.

For example, under COFINA's legal structure, there is no remaining capacity to increase annual debt service, in some respects "closing" the lien. At the same time, COFINA's structure incorporates escalating debt service that grows three-fold by 2041. In general, a closed lien indicates that no additional debt can be issued to weaken debt service coverage. In the case of COFINA, while no additional debt can be issued, it is still possible for debt service coverage to fall if revenues do not demonstrate consistent growth and ultimately triple over 29 years. Therefore, we will be reviewing coverage for each lien in light of recent and projected performance of the base.

Another structural feature is the commonwealth's pledge not to reduce the sales tax without pledging an alternate source of revenue. Within the municipal market, such non-impairment features help improve confidence that the pledged revenues will continue to cover debt service over the life of the bonds.

Other credit characteristics include:

» Relatively limited performance history of the sales tax

» Economic recession in the commonwealth since 2006

» An estimated collection rate of under 60%

» Flat or slightly negative population growth in the commonwealth

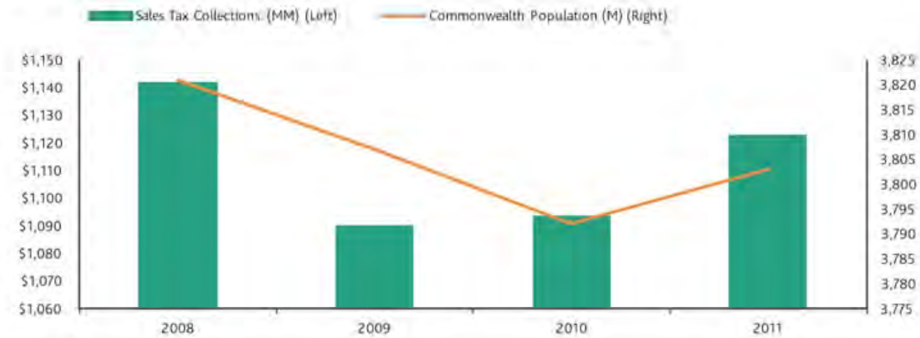
Revenue Projections versus Actual Performance

Puerto Rico's reduced economic activity over the past six years suggests the need for more conservative projections going forward. Since the initial rating, sales tax collections have been lower than initially projected and by 2011 collections were basically flat to 2008 levels. In 2011, total revenues collected under Puerto Rico's 5.5% sales tax were $1.12 billion, compared with $1.14 billion collected in 2008. Sales tax collections were down 4.6% in 2009, essentially flat in 2010, and up modestly at 2.7% in 2011. Sales taxes were up 2.8% year-over-year as of April 2012. Since the tax's inception, the average annual growth rate has been 0.1%, as compared to (1) the 4% growth in scheduled annual debt service, (2) the 1.66% growth required to meet all debt service obligations (i.e. break even), and (3) the 3.2% average annual growth in personal consumer expenditures between 2008 and 2010. The flat growth of sales tax revenues was unexpected considering from 1947 to 2010, personal consumer expenditures grew at an average annual rate of 7.4% in constant dollars.

Current debt service coverage is 6.3 times for the senior bonds and 2.0 times for the senior and subordinated bonds together – below our original projections and weak relative to like rated peers. Assuming no growth in revenues, the current level of sales taxes would be insufficient to meet debt service on the subordinate bonds beginning in 2029. In a no-growth environment for the duration of the senior bonds, the current level of sales taxes is sufficient to meet debt service on the very long-dated

senior bonds until 2054, though does not cover debt service in the last three years until final maturity in 2057.

FIGURE 1
Sales Tax Collections and Population



Source: Moody's Analytics; COFINA

Focus of the Review

During the review, we will focus on COFINA's recent historical and projected debt service coverage given the commonwealth's economic experience. We will establish an updated base case for revenue growth that incorporates our most updated expectations for economic activity, population growth, enforcement of the tax, inflation and Puerto Rico's new tax regime.

The review will also assess key risks that COFINA faces, primarily a challenging economic growth environment in Puerto Rico. While COFINA is largely insulated from the commonwealth's broader budget and financial problems, it still must be viewed in the larger context of the commonwealth's financial and economic environment.

Report Number: 141669

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5.18.09 Moodys COFINA

Tuesday, December 18, 2018
3:17 PM

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New Issue: MOODY'S ASSIGNS A2 TO PUERTO RICO SUBORDINATE LIEN SALES TAX REVENUE BONDS; UPGRADES SENIOR LIEN SALES TAX BONDS TO Aa3

18 May 2009

PUERTO RICO SALES TAX FINANCING CORPORATION HAS $5.2 BILLION IN SENIOR REVENUE BONDS OUTSTANDING

Puerto Rico (Commonwealth of)
State
PR

Moody's Rating

ISSUE	RATING
Sales Tax Revenue Bonds, First Subordinate Series 2009 A	A2

Sale Amount	$6,000,000,000
Expected Sale Date	05/28/09
Rating Description	Revenue

Opinion

NEW YORK, May 18, 2009 -- Moody's Investors Service has assigned an A2 rating and stable outlook to the Puerto Rico Sales Tax Financing Corporation's (COFINA) Sales Tax Revenue Bonds, First Subordinate Series 2009A, to be issued in an amount up to $6 billion. At the same time, we have upgraded the Puerto Rico Sales Tax Financing Corporation Senior Sales Tax Revenue Bonds to Aa3 from A1.

The upgrade to the outstanding senior lien bonds reflects structural changes made to the bond resolution that include increasing the portion of the sales tax that is pledged to the bonds. The changes also reflect provisions that have been put in place by the legislature to restrict the ability to decrease or replace the portion of the sales tax that is not pledged to the bonds but provides debt service coverage. In addition, the upgrade reflects the performance of the sales tax since its inception in November 2006. The rating on the subordinate bonds reflects the additional bonds test and the potential coverage if both liens are fully leveraged. The constraints on issuance provide capacity to issue over $7 billion in bonds. The rating anticipates fully leveraging the program.

The proceeds of the Series 2009A bonds will be used to provide funds to the Commonwealth of Puerto Rico to be applied to the repayment of certain debt obligations, to fund a local economic stimulus plan, and to reduce the fiscal 2009 and 2010 budgetary deficit, among other purposes.

The high-quality ratings on the senior and subordinate bonds reflect the following strengths and challenges:

CREDIT STRENGTHS

* A strong legal structure, including a pledge of the larger of either 2.75% of the commonwealth's 7% sales tax or a minimum, fixed base amount, and a collection mechanism that segregates those monies from the General Fund.

* A broad and diversified economic base that supports the sales tax pledge, including many products and services but excluding the more volatile sectors of automobiles and energy, and strong long-term growth of personal consumption expenditures.

* Non-impairment covenant by the commonwealth; legal opinions that the pledged sales tax revenues are not available to its General Fund.

* For the senior bonds, more than 2 times coverage by the pledged revenues, and more than 5 times coverage by all projected sales tax revenues; for the senior and subordinate bonds together, more than 1 times coverage by the pledged revenues and 2 times coverage by all revenues.

CREDIT CHALLENGES

* The tax is relatively new and its performance during prolonged global economic downturns is unclear

* Coverage could fall if growth in the sales tax is less than expected, or depth and duration of the commonwealth's recession is greater than expected.

* Legislature could change the sales tax to decrease available revenues, although recent legislation would make this more difficult.

* Collections and enforcement appear to be lax.

THE SALES TAX

The 7% sales tax was implemented in Puerto Rico in November 2006. The tax applies to most goods and services, but excludes some of the more volatile sectors, such as automobiles and energy. The sales tax does not depend heavily on the tourism industry, which overall makes up less than 10% of the economic activity in the commonwealth. The 29 months of sales tax collections history show the tax has thus far been relatively stable, and has not experienced declines similar to the recent experience in many states..

It has recently been estimated in Puerto Rico that enforcement efforts have not been strong, and that the commonwealth may only be collecting approximately 60% of the sales tax it could be collecting. The commonwealth has plans to improve its collections and enforcement, which could provide additional revenues.

SALES TAX BONDS-THE OLD STRUCTURE

Of the 7% sales tax that is levied in Puerto Rico, 1.5% goes to municipalities. Of the remaining 5.5%, the original structure dedicated 1% to COFINA's sales tax bonds. Under that structure, $5.2 billion of revenue bonds were issued in 2007 and 2008. The bonds were secured by the pledged revenues, which were defined as 1% of the sales tax, or a "base amount," which was initially set at $185 million, increasing by 4% per year thereafter. The collection and retention process includes several strong structural features. Of the 5.5% of the sales tax not dedicated to municipalities, the first dollars collected in any fiscal year are retained by COFINA until an amount sufficient for annual debt service is accumulated; only after that set-aside is any sales tax released to the commonwealth's General Fund. Thus, the sales tax provides 1 times coverage from pledged revenues, but 5.5 times coverage from all available revenues. Additional bonds could not be issued if debt service on all bonds in any year was greater than base amount in that year. This provided the capacity to issue approximately $6.5 billion. The structure was deemed to "pierce the general obligation ceiling" because it met the requirements laid out in our 2008 methodology report "Piercing the G.O. Ceiling."

NEW STRUCTURE ADDS SUBORDINATE BONDS, STRENGTHENS SENIOR BONDS

The new structure is based on legislation that was passed in early 2009 and an amendment to the governing resolution. Legislation has increased the portion of the sales tax revenues that are pledged to the bonds from 1% to 2.75%, and allows subordinate bonds to be issued. For the new senior and subordinate bonds, the pledged revenues are the larger of 2.75% of the sales tax or the "base amount." The new base amount is $550 million in 2010, which will increase annually by 4% until a cap of $1.85 billion is reached. Under the new structure, as sales tax revenues are collected, the first $550 million go directly to the COFINA debt service fund. After the base amount has been collected, sales tax revenues will go to the General Fund. Once the General Fund has collected $550 million (escalating at 4% annually from 2010), each additional dollar collected is split 50/50 between COFINA and the General Fund.

For additional senior bonds to be sold, they must meet the original additional bonds test (ABT), which requires that debt service on the senior bonds not be greater than the original base amount ($185 million in 2008, growing at 4% per year). While this does not close the lien on the senior bonds, it limits senior issuance to within the original leverage constraint. For subordinate bonds to be issued, combined debt service on senior and subordinate bonds must always be less than the new base amount, and the 5.5% of available sales tax must be at least 2 times debt service.

Under the new structure, the senior bonds have more than 2 times coverage from pledged revenues (as opposed to 1 times coverage under the old structure), and still more than 5 times coverage from all available sales tax revenues. The senior and subordinate bonds together are now expected to have 1 times coverage from the pledged revenues, and 2 times coverage from all available revenues

FLOW OF FUNDS REQUIRES DAILY REVENUE TRANSFERS TO TRUSTEE

Merchants and retailers pay the sales taxes on a monthly basis to Banco Popular or another authorized collection agent. Daily, the collection agent transfers the money to a bridge account at Banco Popular in the name of the Treasury Department. Banco Popular then transfers money on a daily basis (with a two-day delay) to the trustee until the base amount has been deposited into the revenue account. After the base amount has been deposited, the revenues are required to be transferred daily to the Treasury Department's account at the Government Development Bank, until the Treasury Department's account has received its share (2.75%/5.5%) of the collections received to date in the fiscal year. After that time, GDB is responsible for dividing the additional receipts of the sales tax between the Sales Tax Revenue Account and the Treasury Account on the basis of the 50/50 split.

COVERAGE STRONG EVEN IN STRESS SCENARIOS

The first claim on all sales tax revenues is expected to provide healthy coverage of debt service even in stress scenarios. While personal consumption expenditures in Puerto Rico (a proxy for sales tax revenues) have grown at an average annual rate of 7.6% over the past 60 years, much more conservative assumptions were used to calculate coverage.

For example, if there is no growth in sales tax revenues through 2054 and the senior lien is fully leveraged, 1 times coverage of debt service can still be maintained. If there is no growth in sales tax revenues for 15 years, and then growth of 3.8% per year thereafter and both liens are fully leveraged, 1 times coverage is maintained for both the senior and the subordinate bonds. Growth of only 1.6% per year provides just over 1 times coverage of all bonds. A 10% decline in collections in 2011, 2012, and 2013, followed by growth of 3.8% per year thereafter still results in 1.3 times coverage of all bonds' debt service.

Our assumptions of debt service coverage do not include any estimates of population increases over the next 50 years, and do not assume any increases in sales tax revenues due to increased collection enforcement.

CHANGES TO SALES TAX LESS LIKELY THROUGH STRENGTHENED NON-IMPAIRMENT PROVISIONS

On February 6, 2008, the former Governor of the Commonwealth of Puerto Rico announced a plan to suspend the collection of a portion of the sales tax, with the result of reducing the sales tax rate from the current 7% to 2.5%. The reduction in the sales tax would have left 1.5% sales tax available to the municipalities, and 1% dedicated to the Sales Tax Revenue Bonds. The 4.5% in sales tax revenues that previously went to the General Fund would not have been collected. The governor proposed replacing the lost revenues with an excise tax. This proposal was never implemented.

In 2009, a change was made that makes it more difficult for the commonwealth to change the sales tax in the future. Under the revised bond resolution, the sales tax may only be lowered or abolished (and only the portion that is not pledged first to COFINA) if it is replaced with a "like or comparable security," and if the trustee has been provided with (i) written confirmation of all outstanding ratings of the bonds from the applicable rating agencies, taking such substitution into account, and (ii) written opinions of the Secretary of Justice, nationally recognized bond counsel, and Puerto Rico counsel expert in public finance matters, each concluding that the Puerto Rico Supreme Court, if properly presented with the issue, would conclude that the substituted assets and revenues have been validly imposed by law, have been validly transferred to COFINA and do not constitute "available resources" of the commonwealth for purposes of the "clawback" provision of the constitution.

REVENUES NOT SUBJECT TO COMMONWEALTH "CLAWBACK"

We note that the rating on the senior and subordinate Sales Tax Revenue Bonds is significantly higher than our current Baa3/stable rating on the commonwealth's general obligation bonds, primarily reflecting our assessment of the strength of the pledged sales tax security, as well as the fact that the sales tax revenues are not subject to the commonwealth's "clawback" provisions (according to opinions issued by the commonwealth's Secretary of Justice and outside bond counsel). Importantly, we view the sales tax pledge to be insulated from the commonwealth's broader budget and financial problems that have caused the downgrading of the G.O. bonds to their current low investment-grade level.

MOST RECENT RATING ACTION AND PRINCIPAL METHODOLOGY

The Puerto Rico Sales Tax Financing Corporation's Sales Tax Revenue Bonds' rating was assigned by evaluating factors believed to be relevant to the credit profile of the Puerto Rico Sales Tax Financing Corporation, such as i) the business risk and competitive position of the issuer versus others within its industry or sector, ii) the capital structure and financial risk of the issuer, iii) the projected performance of the issuer over the near to intermediate term, iv) the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals, v) the nature of the dedicated revenue stream pledged to the bonds, vi) the debt service coverage provided by such revenue stream, vii) the legal structure that documents the revenue stream and the source of payment, and viii) and the issuer's management and governance structure related to payment. These attributes were compared against other issuers both within and outside of the Puerto Rico Sales Tax Financing Corporation's core peer group, and Puerto Rico Sales Tax Financing Corporation ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk.

The last rating action with respect to the Puerto Rico Sales Tax Financing Corporation was on June 19, 2008, when a rating of A1 was assigned to the Sales Tax Revenue Bonds, Series 2008A.

Outlook

The rating outlook for the Sales Tax Revenue Bonds is stable. The outlook reflects the expected stability of the sales tax revenues, as well as the separation in the structure between the credit and the commonwealth.

What could change the rating-UP

-Dramatic growth in sales tax revenues, leading to a significant increase in coverage

-Increase in the sales tax rate without increasing ability to leverage bonds

-Increase in portion of sales tax dedicated to the bonds without increasing ability to leverage

What could change the rating-DOWN

-Decline in sales tax revenues, leading to decreased coverage

-Legislative change to sales tax that decreases available revenues

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Junior COFINA Rating Changes

Thursday, December 20, 2018
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Moody's Underlying LT

Rating	Watch	Outlook	Effective Date
Ca			Current
Ca			07/01/2015
Caa3			05/21/2015
Caa1			02/19/2015
B1			07/01/2014
Baa2			02/07/2014
	Negative		12/11/2013
A3			07/18/2012
	Negative		04/17/2012
A1			04/16/2010
A2			06/23/2009

Close

S&P Bond Rating

Rating	Watch	Outlook	Effective Date
NR			Current
NR			03/02/2018
D			06/13/2017
CC		Negative	09/10/2015
CCC-	Negative		07/20/2015
CCC-		Negative	06/29/2015
CCC+	Negative		04/24/2015
B		Negative	02/12/2015
BBB-		Negative	07/11/2014
A+	Negative		06/27/2014
A+		Negative	09/30/2013
A+		Stable	05/18/2009

Close

Fitch Bond Rating

Rating	Watch	Outlook	Effective Date
D			Current
D			07/03/2017
C	Negative		06/24/2016
CC	Negative		06/29/2015
B	Negative		03/26/2015
BB-		Negative	07/09/2014
A+		Stable	04/05/2010
A		Stable	05/20/2009

Close

6.13.17_S&P COFINA

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Summary:

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Rationale

Summary:

Puerto Rico Sales Tax Financing Corp.; Sales Tax

Credit Profile

Puerto Rico Sales Tax Fin Corp sales tax		
Unenhanced Rating	D(SPUR)	Downgraded
Long Term Rating	D	Downgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings has lowered its rating on Puerto Rico Sales Tax Financing Corp.'s (COFINA) subordinated sales tax bonds to 'D' from 'CC' on nondisbursement by the trustee of scheduled monthly interest payments due June 1, 2017, in compliance with an order of the U.S. District Court for the District of Puerto Rico. On May 30, the court ordered the trustee to interplead future payments of principal and interest on both the senior and subordinated COFINA sales tax bonds by holding those funds in their existing accounts until a final order of the court has been entered directing the timing and manner of disbursement of funds. At this time, the court's order has only affected the disbursement of interest payments on the COFINA sales tax bonds that require current monthly interest payments; principal payments on certain of the COFINA sales tax bonds are due Aug. 1, 2017.

We understand that the trustee holds funds sufficient to make debt service payments through at least Aug. 1, 2017, on both the senior and subordinated sales tax bonds. However, due to disputes between senior and subordinate bondholders regarding the application of funds held by the trustee and a dispute between the trustee and COFINA as to whether an event of default has occurred, the court has stayed all claims to the funds pending a further order of the court. An acceleration, if determined by the court to have occurred and/or permitted by the court under applicable law, could potentially affect relative recovery between senior and subordinated bondholders. All parties claiming a right to the disputed funds are required to assert their rights to the funds in the court proceeding.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

9.10.15_S&P COFINA

Thursday, December 20, 2018
4:37 PM

STANDARD & POOR'S RATINGS SERVICES
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Puerto Rico Tax-Backed Debt Downgraded To 'CC' From 'CCC-' Following Release Of Fiscal Commission Report

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NEW YORK (Standard & Poor's) Sept. 10, 2015--Standard & Poor's Ratings Services lowered its ratings on the Commonwealth of Puerto Rico's tax-backed debt to 'CC' from 'CCC-' and removed the ratings from CreditWatch, where they had been placed with negative implications July 20. The outlook is negative.

These rating actions follow the Sept. 9 release by the Working Group for the Fiscal and Economic Recovery of Puerto Rico (a special commission recently appointed by the governor) of a special fiscal commission report (the report) recommending restructuring all tax-backed debt, including general obligation (GO) and Puerto Rico Sales Tax Financing Corp. (COFINA) sales tax debt.

We believe a default or restructuring is highly likely and could take the form of either a missed debt service payment or a distressed exchange that we would characterize as a default. In a follow-up address to the commonwealth, Gov. Alejandro Garcia Padilla stated that if creditors are not willing to partake in restructuring negotiations, the government would have no alternative but to proceed without them even if it involved "years of litigation and defaults."

We rate debt 'CC' when we expect default to be a virtual certainty, regardless of the anticipated time to default. In our view, all of Puerto Rico's tax-backed debt is highly vulnerable to nonpayment.

In his television address, Gov. Padilla announced the appointment of a team of debt restructuring experts to negotiate with creditors. Although at this point

the report is technically only a recommendation, the report specifically references measures to address all of Puerto Rico's tax-backed debt obligations, including GO and COFINA sales tax debt.

The report projects Puerto Rico's treasury will exhaust its liquidity in November 2015, even after undertaking extraordinary measures to preserve cash, while the Puerto Rico Government Development Bank (GDB) is projected to exhaust its liquidity before the end of calendar 2015. It projects Puerto Rico will not have fully sufficient resources in fiscal 2016 to make payment on its scheduled tax-supported debt, including GO debt. The report further forecasts a total central government deficit as a whole, including the general fund, GDB net revenue, COFINA, federal programs, and Puerto Rico Highways & Transportation Authority (HTA) net revenue, in fiscal 2016 of $3.2 billion, or about 16% of expenditures, including payment of debt service. The report projects only a $924 million surplus available before payment of debt service--insufficient, in our view, to pay $1.8 billion of GO and GO-guaranteed debt service (GO debt service alone is $1.2 billion), much less total central government debt service, including GO debt, of $4.1 billion.

We rate all Puerto Rico tax-backed debt at the same 'CC' level, except for Puerto Rico Public Finance Corp. (PFC) debt, which is currently in default and rated 'D', reflecting the report's projection of limited liquidity to meet all debt service before the end of calendar 2015, including GO debt service, and the report's recommendation to enter restructuring discussions with all tax-backed debt holders.

The report also makes various other revenue and expenditure recommendations, although the governor stated in his follow-up address that he does not expect to make any further reductions to the number of commonwealth employees. In addition, the report recommends that the governor establish a five-member financial control board with oversight authority over most governmental entities, including the commonwealth, GDB, and the public corporations except Puerto Rico Aqueduct & Sewer Authority (PRASA) and Puerto Rico Electric Power Authority. Creating such a board would, however, that would require new legislation. In our view, it may be difficult for the governor to obtain the requisite legislative approval to cede significant fiscal power to a financial control board. The report also anticipates the provision of additional federal health care funding not in current law and other U.S. actions in future years that might not materialize.

Apart from the information and recommendations contained in the report, we believe Puerto Rico's very difficult near-term fiscal situation is demonstrated by:

- A large $703 million fiscal 2015 operating deficit, despite the enactment on paper of a balanced budget;
- Constraints on external market access for needed cash flow financing, which has contributed to what we view as the current precarious liquidity position--in fiscal 2015 the commonwealth was able to sell $1.2 billion of cash flow financing notes, but has been unable to sell external cash flow financing to date in fiscal 2016;

- The recent default on PFC annual appropriation-secured debt as the result of non-appropriation of debt service by the legislature;
- A recent decision to no longer make monthly GO debt service set-asides in advance of the commonwealth's next Jan. 1 GO debt service payment date in order to preserve liquidity;
- The administration's embrace of an earlier report released on June 29 (the Kreuger report), that similarly recommended debt restructuring as part of a comprehensive fiscal solution; and
- A weak long-term fiscal outlook due to pressures from projected rising healthcare costs, pension payments, and debt service, which increases Puerto Rico's incentive to pursue debt restructuring.

OUTLOOK

If any specific debt issues fell into default, we would lower our rating on the debt to 'D'. Although we do not expect it to occur, if liquidity improved to the extent we believe likely for the commonwealth to avoid near-term default, we could potentially raise our rating back to the 'CCC' category.

DEBT AND LIABILITY UPDATE

New debt figures were released with this report. Using these figures, we calculate Puerto Rico's total tax-backed debt as of June 30, 2015, at $48.5 billion, which includes $13.1 billion GO debt; $5.5 billion commonwealth-guaranteed debt, including $1.1 billion of PRASA debt guaranteed by the commonwealth; $4.1 billion appropriation of Public Building Authority lease supported debt; $2.9 billion Employees Retirement System debt secured by the commonwealth and local employer contributions, but in our view ultimately paid by the general fund; $15.2 billion COFINA sales tax bonds; $554 million Puerto Rico Convention Center District Authority hotel tax bonds; $6.5 billion HTA transportation tax-secured bonds; a $246 million petroleum tax-backed note held by GDB; and $300 million of cash flow notes; but excludes Puerto Rico Infrastructure Financing Authority debt secured by federal rum excise taxes on product sold in the U.S., as well as local municipal debt, and nonguaranteed debt secured by electric and water and sewer utilities. Our calculation of total tax-backed debt equals a very high $13,714 per capita, 76.0% of personal income, and 46.7% of gross domestic product.

We also view Puerto Rico's unfunded pension obligations as very high. Puerto Rico has disclosed a preliminary actuarial valuation of its multi-employer Employees Retirement System as of June 30, 2014, with a net pension liability of $30.0 billion, and a 0.7% funded ratio. The system's net assets were projected to be exhausted in fiscal 2015, but due to the $2.9 billion of pension obligation bonds outstanding, its gross assets were not projected to be depleted until fiscal 2021. However, because a significant amount of the system's assets are loaned to its members, and Puerto Rico funded less than its actuarial recommendation in fiscal 2015, we believe the system's assets will likely be exhausted before then. Puerto Rico's Teachers Retirement System had a preliminary June 30, 2014 valuation showing a $13.1 billion net pension liability and an 11.5% funded ratio. The commonwealth's Judiciary Retirement System had a preliminary $62.1 million net pension liability and a 12.3% funded ratio.

Puerto Rico also projects that without additional federal funding under the Affordable Care Act its health care insurance program deficit could rise to $2.0 billion by fiscal 2019, up from $59 million in fiscal 2014, which could potentially require general fund subsidies.

The commonwealth's tax-backed debt rated 'CC' with a negative outlook includes:

- Puerto Rico GO bonds;
- COFINA first-lien and second-lien sales tax bonds;
- Puerto Rico Municipal Finance Agency's, the Puerto Rico Employees Retirement System's, and the commonwealth's general fund-supported appropriation and moral obligation bonds (excluding PFC debt, which is currently in default and rated 'D');
- Puerto Rico Infrastructure Financing Authority's (rum tax);
- Puerto Rico Convention Center District Authority's (hotel tax) debt; and
- Puerto Rico HTA's rated debt.

RELATED CRITERIA AND RESEARCH

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Toll Road And Bridge Revenue Bonds In The U.S. And Canada, Feb. 25, 2014
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Special Tax Bonds, June 13, 2007
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Moral Obligation Bonds, June 27, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006

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7.20.15_S&P COFINA

Thursday, December 20, 2018
4:38 PM

STANDARD & POOR'S
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Puerto Rico PFC Rating Lowered To 'CC'; All Puerto Rico Tax-Backed Debt Placed On CreditWatch Negative

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NEW YORK (Standard & Poor's) July 20, 2015--Standard & Poor's Ratings Services has lowered its 'CCC-' rating on Puerto Rico Public Finance Corp. (PFC) series 2011A and B and series 2012 A bonds to 'CC' following non-appropriation of debt service by the legislature in the fiscal 2016 budget. We see default for this debt on its next debt service date, Aug. 1, 2015, as a virtual certainty. The rating outlook is negative.

At the same time we have placed all other Puerto Rico tax-backed debt, currently rated 'CCC-/Negative' on CreditWatch with negative implications. In our view, non-appropriation of PFC debt service represents a departure from Puerto Rico's previous practice of timely funding of debt service and signals deteriorating liquidity, which could call into question the ability to fund debt service payments as early as September. If liquidity pressures intensify so as to call into question near-term debt payments, we would likely lower our rating. Puerto Rico's administration has called for restructuring discussions with all creditors. We believe a default on the PFC bonds would be further demonstration of increasing unwillingness to pay debt in full and also raises the potential for future unequal treatment between various types of bondholders. We expect more clarity after the presentation to the governor and the legislature of recommendations from a special commission on Sept. 1, which could discuss restructuring options.

The legislature did not appropriate for debt service payments for the PFC bonds in its fiscal 2016 budget (the fiscal year began July 1), despite a

request by the Puerto Rico Office of Management and Budget to do so. We believe it is very unlikely the legislature will appropriate for debt service before an upcoming Aug. 1 debt service payment date, as that would require the governor to call a special session of the legislature. To our knowledge, there are no plans to call a special session. It is our understanding that default on these bonds would not create a cross-default with other debt, and PFC bondholders would have limited remedies against the Commonwealth.

RELATED CRITERIA AND RESEARCH

Related Criteria

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Special Tax Bonds, June 13, 2007
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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6.29.15 S&P COFINA

Thursday, December 20, 2018
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STANDARD & POOR'S RATINGS SERVICES
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Puerto Rico GO Rating Lowered To 'CCC-' From 'CCC+'; Outlook Is Negative On Likelihood Of Default Or Distressed Exchange

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NEW YORK (Standard & Poor's) June 29, 2015--Standard & Poor's Ratings Services has lowered its general obligation (GO) rating on the Commonwealth of Puerto Rico to 'CCC-' from 'CCC+'. At the same time, Standard & Poor's has removed the GO rating from CreditWatch, where it was placed with negative implications on April 24, 2015, and assigned a negative outlook.

In addition, Standard & Poor's has lowered its ratings to 'CCC-' from 'CCC+' on:

- Puerto Rico Sales Tax Financing Corp.'s (COFINA) first-lien and second-lien sales tax bonds;
- Puerto Rico Municipal Finance Agency's, the Puerto Rico Employees Retirement System's, and the commonwealth's general fund-supported appropriation and moral obligation bonds;
- Puerto Rico Infrastructure Financing Authority's (rum tax) and the Puerto Rico Convention Center District Authority's (hotel tax) debt; and
- Puerto Rico Highway and Transportation Authority's (HTA) rated debt.

The downgrades are based on our view that a default, distressed exchange, or redemption of the commonwealth's debt appears to be inevitable within the next six months absent unanticipated significantly favorable changes in the issuers' circumstances. We believe that the administration's embrace of a report released June 29, that it commissioned, which recommends consideration of a restructuring of the commonwealth's debts among other options, taken

together with Puerto Rico's ongoing fiscal struggles—a diminished liquidity position, constraints on external market access for needed cash flow financing, and delay in enacting a budget for the new fiscal year that begins July 1—indicates that the potential for a restructuring of some or all of the commonwealth's debt is a significant possibility over the next six months.

We have placed all debt at the same 'CCC-' level, reflecting our view that all debt obligations are potentially at risk for possible restructuring due to the severity of Puerto Rico's current fiscal situation. The negative outlook reflects that there is at least a one in three chance we could lower the rating upon a formal announcement by Puerto Rico that it intends to undertake an exchange offer or similar restructuring that we classify as distressed, or that it has an intention to miss a debt service payment.

We understand the commonwealth intends to pay short-term notes due June 30 and general fund-supported obligations on July 1. However, we believe the commonwealth's very weak liquidity and difficulty in obtaining external market access for cash flow financing raises the likelihood of a debt restructuring within the next six months. In our view, Puerto Rico must obtain adequate external cash flow financing within that time frame even if pending bills that would allow the use of liquidity in state insurance and retirement funds were enacted into law and approved by their funds' respective boards. Adding pressure to Puerto Rico's liquidity and external market access is its most recent projection of a general fund operating deficit in fiscal 2015 and a larger than forecasted gap for 2016 with no clarity on when a budget will be finalized.

The new report "Puerto Rico--A Way Forward" by consultants Anne Krueger, Ranjit Teja, and Andrew Wolfe, released by the Puerto Rico Government Development Bank, identifies a "fast deteriorating" cash flow position and very large out-year central government budget gaps that approach the size of current full year general fund revenues. The report projects a fiscal 2016 budget gap of $3.7 billion, absent corrective action, which would rise to $6.0 billion by 2018 and higher in subsequent years. We view these projected out-year gaps as unmanageable in relation to fiscal 2015 estimated general fund revenue of only $9.6 billion. The report lists debt restructuring as an important government option.

OUTLOOK

Should Puerto Rico announce an intention to miss debt payments or undertake an exchange offer or similar restructuring that we classify as distressed, or if we conclude it has inadequate resources to meet an impending debt obligation, we could lower our rating within the year. Should Puerto Rico restore adequate liquidity without a debt exchange, which we view as not likely, we could raise the outlook or rating.

RELATED CRITERIA AND RESEARCH

Related Criteria

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006

- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Special Tax Bonds, June 13, 2007
- General Criteria: The Interaction Of Bond Insurance And Credit Ratings, Aug. 24, 2009
- USPF Criteria: Moral Obligation Bonds, June 27, 2006
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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4.24.15 S&P COFINA

Thursday, December 20, 2018
4:41 PM

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Puerto Rico Downgraded To 'CCC+' From 'B' On Weakened Market Access; Placed On CreditWatch Negative

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NEW YORK (Standard & Poor's) April 24, 2015--Standard & Poor's Ratings Services has lowered its general obligation (GO) rating on the Commonwealth of Puerto Rico to 'CCC+' from 'B'. At the same time, Standard & Poor's has placed the GO rating on CreditWatch with negative implications.

In addition, Standard & Poor's has lowered its ratings on:

- Puerto Rico Sales Tax Financing Corp.'s (COFINA) first-lien sales tax bonds to 'CCC+' from 'B' and COFINA's second-lien sales tax bonds to 'CCC+' from 'B';
- Puerto Rico Municipal Finance Agency's, the Puerto Rico Employees Retirement System's, and the commonwealth's general fund-supported appropriation and moral obligation bonds to 'CCC+' from 'B';
- Puerto Rico Infrastructure Financing Authority's (rum tax) and the Puerto Rico Convention Center District Authority's (hotel tax) debt to 'CCC+' from 'B'; and
- Puerto Rico Highway and Transportation Authority's rated debt (HTA) to 'CCC+' from 'B'.

These bonds have also been placed on CreditWatch with negative implications.

We base the downgrade of Puerto Rico's tax-supported debt on our view that the commonwealth's market access prospects have further weakened and Puerto Rico's ability to meet its financial commitments is increasingly tied to the

business, financial, and economic conditions on the island. Absent improvement in those conditions, we believe debt and other financial commitments will be unsustainable.

Our placement of the ratings on CreditWatch negative reflects our view that the commonwealth's current lack of consensus on key elements of the fiscal 2016 budget could exacerbate liquidity and fiscal pressure. We expect to resolve the CreditWatch within three months when enactment of a budget will provide additional information allowing us to evaluate overall liquidity. We believe enactment of a credible balanced budget by the start of the new fiscal year (July 1) could be an important element in Puerto Rico regaining external market access. Should passage of a fiscal 2016 budget become significantly delayed, or the budget is enacted with significant structural flaws, we could lower the rating to 'CCC' or lower. Alternatively, if timely budget adoption translates into stabilized liquidity, we could remove the ratings from CreditWatch and affirm the 'CCC+' ratings.

Recent developments highlight what we see as liquidity risk for the commonwealth from diminished external market access. The board of the Puerto Rico Government Development Bank (GDB) recently sent a letter to the Governor and state legislators indicating increasingly remote prospects for selling a proposed refinancing of a $2.2 billion Highway and Transportation Authority loan from GDB with a larger $2.95 billion external bond issue backed by petroleum taxes. The purpose of the refinancing would be to improve GDB liquidity.

The GDB board cited liquidity problems that could occur as early as the start of fiscal 2016 unless legislators enact a budget and address tax reform. We believe the existence of such a letter indicates liquidity stress.

In our view, it is unclear how the GDB's efforts to attract a nontraditional base of debt investors for the $2.95 billion external bond issue are affecting the commonwealth's budget and fiscal policy negotiations.

It is our opinion that even if the proposed value-added tax (VAT) were enacted by the legislature without delay, without external financing, liquidity may still fall below thresholds necessary to maintain operations and fund financial commitments. Further underscoring liquidity pressure is legislation introduced April 8 (P. de la C. 2406), which includes new restrictions on depositors in order to preserve GDB liquidity.

Introduction of the executive budget proposal for fiscal 2016 has been delayed as the legislature debates the administration's proposal to implement a new 16% VAT, whose level may be reduced after legislative deliberations. We believe that imposition of a new VAT is subject to implementation risks, whose uncertainties might affect future budget performance and the willingness of investors to extend future credit, and which is incorporated into our CreditWatch designation.

We also believe budget pressures are exacerbated by current weak economic

trends and high debt levels, factors likely to persist in the long term. Imposition of a large VAT may increase overall tax revenue, but have negative short-term economic implications.

As a result of what we believe is increasingly constrained capital market access, we have used an override factor within our state rating methodology to limit our GO rating on Puerto Rico to 'CCC+'. We are now using our 'CCC' criteria, which provides clarity for assigning ratings within the 'CCC' and 'CC' categories. Under our 'CCC' criteria, the degree of financial stress and the time frame for anticipated default are primary factors in our assessment of issuers rated within the 'CCC' and 'CC' categories. Although we believe that passage of a structurally balanced budget by July 1 may improve the odds of accessing the private debt markets to improve liquidity, we believe that substantial doubt exists as to whether an external debt sale of sufficient size may be accomplished by the end of fiscal 2015, or later in fiscal 2016, when we believe substantial seasonal cash flow financing will be needed. At present, we believe Puerto Rico has very limited or no external debt market access in either the public or private external debt markets, including investment from private high-risk investors who have provided cash flow financing during the current fiscal year. Our downgrade reflects our criteria override assessment of increased capital market access risk, combined with near-term liquidity pressures. We believe this could lead to a government shutdown without access to external debt markets.

Although HTA, COFINA, rum, and hotel tax-secured debt appear to have adequate pledged revenues on a strict legal coverage basis, we are concerned that these revenue streams may not be adequately separated from the commonwealth's credit quality in the event of severe general fund credit or liquidity stress caused by the lack of debt market access. For more information on our view of the potential impact of the proposed VAT on COFINA's sales tax secured bonds, please refer to our article published Feb. 12, 2015, on RatingsDirect.

RELATED CRITERIA AND RESEARCH

Related Criteria
USPF Criteria: State Ratings Methodology, Jan. 3, 2011
USPF Criteria: Financial Management Assessment, June 27, 2006
USPF Criteria: Special Tax Bonds, June 13, 2007
USPF Criteria: Moral Obligation Bonds, June 27, 2006
Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012

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2.12.15 S&P COFINA

Thursday, December 20, 2018
4:42 PM

STANDARD & POOR'S
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Puerto Rico General Obligation Debt Rating Lowered To 'B' From 'BB' On Potential Inability To Meet Debt Commitments

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NEW YORK (Standard & Poor's) Feb. 12, 2015--Standard & Poor's Ratings Services has lowered its general obligation (GO) rating on the Commonwealth of Puerto Rico to 'B' from 'BB'. The outlook is negative.

In addition, Standard & Poor's has lowered its ratings on:

- Puerto Rico Sales Tax Financing Corp.'s (COFINA) first-lien sales tax bonds to 'B' from 'BBB';
- COFINA's second-lien sales tax bonds to 'B' from 'BBB-';
- Puerto Rico Municipal Finance Agency's, the Puerto Rico Employees Retirement System's, and the commonwealth's general fund-supported appropriation and moral obligation bonds to 'B' from 'BB-'; and
- Puerto Rico Infrastructure Financing Authority's (rum tax) and the Puerto Rico Convention Center District Authority's (hotel tax) debt to 'B' from 'BB'.

Standard & Poor's rating on the Puerto Rico Highways and Transportation Authority (HTA) is unchanged at 'B'. The outlook on all ratings is negative.

We believe Puerto Rico's current economic and financial trajectory is now more susceptible to adverse financial, economic, and market conditions that could ultimately impair the commonwealth's ability to fund services and its debt commitments. Persistent economic weakness over many years has contributed to declining revenue and fiscal imbalance. Under revolving leadership, the

government's response to the situation has vacillated between rounds of spending austerity and tax cuts, or increased taxes and limited layoffs, but in either case it has relied on debt issuance to cover operating deficits. Over time, this has led to high debt levels, which have become harder to sustain because of continued economic weakness has reduced tax resources. In our view, Puerto Rico's focus more recently has turned to new rounds of financing to simply maintain critical levels of operating cash, while paying a steep price for acquiring new financing. All of this poses a threat, in our view, to the commonwealth's ability to continue providing basic governmental services. We have observed in other jurisdictions that such an environment can easily give way to political and policy instability.

The GO and associated downgrades follow what we view as significantly increased near-term liquidity risks for the commonwealth. At this rating level and due to the relatively low proportion of appropriation-supported debt to total GO debt, we believe appropriation and GO debt share similar risk.

We have also lowered the COFINA ratings based on our view that introduction of the new value added tax (VAT) will create increased uncertainty as to the timing of receipts of pledged revenues and whether bond covenants separating the tax revenue from that of the commonwealth may be maintained. The HTA debt is affirmed, whose rating continues to reflect uncertainties relating to the Puerto Rico Public Corporation Debt Enforcement and Recovery Act debt restructuring law. The outlook on all bonds remains negative, reflecting liquidity, budget, and economic uncertainty over the next year that could further erode credit quality.

LIQUIDITY RISK

We believe Puerto Rico has experienced and will continue to face a major reduction in its ability to obtain external liquidity at a reasonable cost, as evidenced by GO bond yields topping 10%, following a lower court decision invalidating its debt restructuring law. As a result, Puerto Rico's access to cash flow financing necessary for the next fiscal year could be severely constrained in our opinion. For the current fiscal year ending June 30, 2015, Puerto Rico has arranged for more than $1 billion in total of cash flow financing, which we expect to provide sufficient liquidity through the end of the current fiscal year based on current cash flow estimates provided by the commonwealth. We note that economic trends continue to weaken, which could widen the current year budget gap and further weaken liquidity. Revenues through December 2014 were already $96.5 million, or 2.5%, below budget forecast. We believe liquidity pressures will mount early in fiscal 2016 because of the Government Development Bank's (GDB) ability to provide liquidity may be constrained, and budget risks may be amplified if a new tax structure in the form of a VAT is implemented while at the same time negative economic trends persist. It is also unclear what effect the imposition of a VAT, if approved, might have on the island's economy.

The court decision on the restructuring law may also pose a threat to the GDB's liquidity by reducing investor appetite for its plan to refinance $2.2 billion of an unrated subordinate HTA loan. In our view, refinancing the HTA

loan is needed to recapitalize the GDB and in turn provide for central government liquidity.

IMPLEMENTATION OF VALUE ADDED TAX

We also believe that budget risk is high for the next fiscal year due to the government's announced plan to implement a new VAT, expected to be imposed at 16%.

Puerto Rico's intention in imposing a VAT is to significantly raise overall revenues and create a more equitable tax system that reduces tax evasion, compared with the sales tax it would replace. We believe there is implementation risk in the near term, if the new tax structure is approved, due to the lack of collection history and the uncertainty of collection mechanics. We also believe that it could increase forecasting volatility. While on a long-term basis, higher taxes could improve the budget balance, we have concerns for the potential negative economic implications that could result from the new tax. When the current sales tax went into effect, the commonwealth expected to increase revenues and reduce tax evasion. However, actual sales tax growth fell short of original projections and compliance remains an issue. We are concerned that similar unexpected consequences could arise from implementation of the VAT. If approved, it would be the first time a VAT was implemented within the U.S. governmental system. There appears to be no consensus between the two main political parties on imposition of the tax, suggesting the new tax could be modified if the main opposition party gains office in the future.

Introduction of VAT legislation has negative implications for COFINA's sales tax-secured bonds in our view due to the uncertainty over the amount of pledged revenues that would replace the sales tax, and whether the new structure maintains the separation of pledged revenue from what is pledged to the GO bondholders. COFINA bond covenants allow replacement of sales taxes pledged to bonds by a "substitute like or comparable security," but only if it does not impair an obligation of COFINA. In addition, bond covenants prohibit substitution unless the bond trustee shall have been provided with written confirmation of all bond ratings outstanding from rating agencies maintaining a rating on the bonds, taking such substitution into account. If approved, we will evaluate the new VAT implementation plan and its impact on credit quality.

ECONOMY

The current developments occur against the backdrop of continued economic weakness in the past year. Although employment has stabilized in the past three months, it remains down slightly year-over-year. The GDB leading economic index released December 2014 showed a 1.4% year-over-year decline, and census data for 2014 show the island's population continues to decline. We still believe economic growth is necessary for the commonwealth to pay growing debt service, pension, and health care costs and, in our view, the prospects for this have declined in recent months. (For more information on Puerto Rico's economy, please refer to our commentary published Nov. 7, 2014, on RatingsDirect.)

CAPITAL MARKET ACCESS

As a result of what we believe is constrained capital market access we have used an override factor within our state rating methodology to limit our GO rating on Puerto Rico to the 'B' category. We believe the commonwealth will require access to external debt markets for substantial cash flow financing in early fiscal 2016, or potentially before that if budget forecasts prove weaker than current forecasts. In our opinion, Puerto Rico could potentially find itself without market access at affordable cost if GDB's liquidity falls or the private high-risk investors who currently invest in Puerto Rico and its public corporations abandon this high-yield lending strategy. Recent GO bond yields above 10% are, in our view, an expression of external market risk. The central government's access to loans may also be affected by a recent lower court decision that invalidated Puerto Rico's recent debt restructuring law for public corporations, which investors might perceive as limiting the commonwealth's efforts to isolate or "ring fence" the GO debt from the credit problems affecting its public agencies. Although other overrides apply to our rating on Puerto Rico, such as a high level of expected future long-term liabilities for debt and pension systems, and weak financial management, our downgrade reflects our assessment of the capital market access risk override.

As liquidity becomes more constrained, if the economy continues to weaken, and budget gaps increase, we believe Puerto Rico's access to the capital markets could deteriorate. Proposed changes to the current tax structure could also exacerbate this uncertainty. Although HTA, COFINA, rum, and hotel tax-secured debt appears to have adequate pledged revenues on a strict legal coverage basis, we are concerned that these revenue streams may not be adequately separated from the commonwealth's credit quality in the event of severe general fund credit and/or liquidity stress.

OUTLOOK

Our outlook on Puerto Rico is negative. To the extent the commonwealth's liquidity situation deteriorates in the next year, possibly due to an inability to place cash flow notes, or a widening fiscal 2015 deficit, we could lower our GO and associated ratings on Puerto Rico. Should liquidity also become further constrained during the phase-in period of the proposed VAT, we could also lower the ratings. Should Puerto Rico's liquidity situation improve and the commonwealth regain affordable market access, which we do not expect in the near term, we could revise the outlook to stable.

RELATED CRITERIA AND RESEARCH

Related Criteria

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at

www.standardandpoors.com. Use the Ratings search box located in the left column.

7.11.14 S&P COFINA

Thursday, December 20, 2018
4:42 PM

STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Barclays Capital Inc. Series 2010-65W 'AA-/A-1' And 'AA-' Ratings Placed On CreditWatch Negative

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NEW YORK (Standard & Poor's) July 11, 2014--Standard & Poor's Ratings Services placed its 'AA-/A-1' and 'AA-' ratings on Barclays Capital Inc.'s series 2010-65W floater and residual certificates, relating to Puerto Rico Sales Tax Financing Corp.'s sales tax revenue bonds, on CreditWatch with negative implications.

This action follows Standard & Poor's June 27, 2014, placement of its rating on the underlying bonds on CreditWatch with negative implications (see, "Puerto Rico; Appropriations; Gas Tax; General Obligation; General Obligation Equivalent Security; Miscellaneous Tax; Sales Tax" published July 1, 2014, on RatingsDirect).

The long-term component of the ratings on the floater and residual certificates is based on the rating of the underlying bonds. The short-term component of the rating on the floater certificates is based on the rating on the liquidity facility provider, Barclays Bank PLC.

STANDARD & POOR's 17g-7 DISCLOSURE REPORT
SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties and enforcement mechanisms in issuances of similar securities.

There is no Standard & Poor's 17g-7 Disclosure Report included in this credit rating report because, in our view, there are no representations, warranties and enforcement mechanisms available to investors.

RELATED CRITERIA AND RESEARCH

Related Criteria

- USPF Criteria: Secondary Market Derivative Products, June 27, 2007
- Structured Finance Criteria: Global Methodology For Rating Repackaged Securities, Oct. 16, 2012

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

6.27.14 S&P COFINA

Thursday, December 20, 2018
5:11 PM

STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Puerto Rico And Related Entity Ratings Placed On CreditWatch Negative Following Legislation Approval

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NEW YORK (Standard & Poor's) June 27, 2014--Standard & Poor's Ratings Services has placed its general obligation (GO) and appropriation debt ratings on the Commonwealth of Puerto Rico on CreditWatch with negative implications. Standard & Poor's has also placed its debt ratings on the Puerto Rico Employee Retirement System, the Puerto Rico Infrastructure Financing Authority, the Puerto Rico Convention Center District Authority, the Puerto Rico Highways and Transportation Authority, and the Puerto Rico Sales Tax Financing Corp. (COFINA) on CreditWatch with negative implications.

These CreditWatch actions follow the introduction of legislation that would enable the restructuring of debt issued by the commonwealth's public corporations (the "Puerto Rico Public Corporation Debt Enforcement and Recovery Act"). The bill specifically excludes from its scope the GO debt of the commonwealth and any debt guaranteed by the commonwealth; the 78 municipalities of the commonwealth; the Government Development Bank and its subsidiaries; the Employees Retirement System; the Judiciary Retirement System; the Municipal Finance Agency; the Municipal Finance Corp.; the Puerto Rico Industrial Development Co.; the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority; the Puerto Rico Infrastructure Financing Authority; the Puerto Rico Sales Tax Financing Corp.; the Teachers Retirement System; and the University of Puerto Rico.

"We recognize that the specific exclusion of the above-mentioned entities from

the bill could potentially limit the demand for liquidity and budgetary support from the commonwealth and the Government Development Bank to the public corporations," said Standard & Poor's credit analyst David Hitchcock. "However, we believe that the introduction of the bill by Governor Alejandro Garcia Padilla and its approval by the legislature is indicative of the growing economic and fiscal challenges for the commonwealth as a whole, which could lead to additional liquidity pressures in the long term and a potential shift in the commonwealth's historically strong willingness to continue to meet its obligations to bondholders," added Mr. Hitchcock.

The negative CreditWatch placement indicates that we could lower the ratings within the next 60 to 90 days pending an eventual signing of the approved bill into law and our evaluation of the potential impact on the various ratings included in this action. In the event of a negative rating action, our ratings on the Highways and Transportation Authority and COFINA debt could potentially experience a larger downgrade than that of the commonwealth's GO debt. We believe the new law could allow for the restructuring of the Highways Authority debt, and, in our view, the willingness to adjust the statutory debt structure raises the risk that COFINA's sales tax security pledge may not be separated from the commonwealth's finances in the future.

RELATED CRITERIA AND RESEARCH

Related Criteria

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Special Tax Bonds, June 13, 2007
- USPF Criteria: Moral Obligation Bonds, June 27, 2006

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

9.30.13 S&P COFINA

Thursday, December 20, 2018
5:12 PM

STANDARD & POOR'S
RATINGS SERVICES
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Puerto Rico Sales Tax Financing Corp. Sales Tax Bond Ratings Outlook To Negative On Declining Economy, Population

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NEW YORK (Standard & Poor's) Sept. 30, 2013--Standard & Poor's Ratings Services has revised its outlook on Puerto Rico Sales Tax Financing Corp.'s (COFINA) first- and second-lien bonds to negative from stable. At the same time, Standard & Poor's has affirmed its 'AA-' rating on COFINA's senior (first-lien) sales tax revenue bonds and its 'A+' rating on the first subordinate (second-lien) sales tax revenue bonds outstanding.

"We base the outlook revision on what we view as Puerto Rico's current declining economic and population trends," said Standard & Poor's credit analyst David Hitchcock.

Although annual debt service coverage remains strong for both first- and second-lien sales tax-secured debt, particularly after a recent legislated expansion of the sales tax base that has raised annual coverage in the short term, growth in sales tax is still needed to maintain high annual debt service coverage for first-lien bonds, and to cover combined first- and second-lien maximum annual debt service (MADS) occurring in 2041. If we were to lower the rating on the bonds, we believe it would likely be limited to one notch, reflecting gradual economic trends that have seen steady declines in population and economic gross product.

The 'AA-' rating on the first-lien bonds and 'A+' rating on the second-lien bonds reflect our opinion of:

- A large tax base of 3.7 million, which receives substantial federal

income transfer payments, and a sales and use tax (SUT) that excludes volatile sectors such as automobile sales and hotel occupancy, and has shown recent trends of increasing tax collections, despite commonwealth economic contraction;
- Very strong current annual debt service coverage on first-lien bonds and adequate historical coverage of first-lien MADS;
- Strong annual coverage on the second-lien bonds;
- A strong legal structure that separates the revenue stream securing the bonds from the Commonwealth of Puerto Rico ('BBB-/Negative' general obligation rating);
- COFINA's access, on a priority basis, to the entire 5.5% SUT currently collected to pay debt service for first- and second-lien SUT-secured debt; and
- A recent expansion of the sales tax base to business services, projected by the commonwealth to increase sales tax collections by 28.7% as budgeted in fiscal 2014, 2.4% annual growth in SUT between fiscal years 2010-2013, and a commonwealth projection that only an annual growth rate of 1.1% will be needed to achieve coverage of second-lien MADS in 2041.

Offsetting factors include:
- The inability to completely isolate credit quality from the commonwealth's financial and economic condition; and
- The need to have revenue growth continue in order to meet second-lien MADS occurring in 2041, and to preserve strong annual debt service coverage of first-lien bonds.

Commonwealth officials have publicly announced plans to potentially issue new third-lien secured sales tax bonds. The rating affirmation and outlook revision on the first- and second-lien sales tax debt reflect our view of the current economic climate and is not related to the potential for additional leverage.

The negative outlook on the bonds reflects Standard & Poor's expectation that if current negative economic trends persist there is at least a one-in-three chance that we could lower the ratings over our two-year outlook horizon. We believe such a downgrade would likely be limited to one notch, reflecting gradual economic trends that have seen steady declines in population and economic gross product. Although sales tax has increased during this period, we don't believe sales tax can remain wholly immune to economic trends. While annual debt service coverage remains strong for both first- and second-lien sales tax-secured bonds, growth in sales tax is needed to maintain the current high annual debt service coverage for first-lien bonds in later years, despite the recent legislated expansion of the sales tax base that will raise coverage in the short term. Continued growth in sales tax collections is needed to cover future combined first- and second-lien MADS that occurs in 2041, due to the back-loaded debt service schedule. While the level of historical SUT collections received in fiscal 2013 can cover annual debt service for both liens for more than a decade, and the expanded level of SUT Puerto Rico has budgeted for fiscal 2014 covers second-lien annual debt service for more than two decades, growth is still needed to cover second-lien MADS in 2041, and to

raise historical coverage of first-lien MADS (occurring in 2057) to the strong levels of current annual debt service coverage. If economic trends for the island return to significant growth, we could potentially revise the outlook on the bonds to stable.

RELATED CRITERIA AND RESEARCH

USPF Criteria: Special Tax Bonds, June 13, 2007

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

20 May 2009 | New Issue

Fitch Rates Puerto Rico's $7.5B Subordinate Lien Sales Tax Revs 'A'

Fitch Ratings-New York-20 May 2009: Fitch Ratings has assigned a program rating of 'A' to approximately $7.5 billion of Puerto Rico Sales Tax Financing Corporation (COFINA) sales tax revenue bonds, first subordinate series 2009A and 2009B. The 2009A and 2009B bonds are expected to sell the week of June 8, 2009 through negotiation. This is the first offering of subordinate lien sales tax revenue bonds by the corporation, an independent governmental instrumentality of the commonwealth and affiliate of the Government Development Bank of Puerto Rico (GDB). Fitch also affirms at 'A+' and removes from Rating Watch Negative COFINA's $5.2 billion of outstanding senior lien bonds. The Rating Outlook for both the senior and subordinate lien bonds is Stable.

The ratings on the senior and subordinate lien bonds reflect a structure and revenue pledge that result in a much stronger credit than the Commonwealth of Puerto Rico's (the commonwealth) strained general obligation (GO) credit. Bonds have a first claim on all commonwealth sales tax revenues, providing strong current coverage. The legal opinions are strong, finding that neither the commonwealth general fund nor commonwealth GO bondholders have a claim on pledged sales tax revenues. Recent enhancements to the bond resolution, in particular a strengthening of non-impairment language, provide some additional protection to bondholders. The sales tax base is broad and the retail environment in Puerto Rico has shown strength even in challenging economic times. Offsetting these credit strengths is the very long final maturity of both the senior and subordinate lien bonds and the program's rising debt service profile, which requires some growth in revenues to achieve coverage of later maturities. Additional risks include the commonwealth's strained fiscal and economic environment.

The bonds are secured by a portion of the commonwealth's island-wide sales and use tax, which became effective on Nov. 15, 2006. This broad-based tax was instituted as part of Puerto Rico's 2006 tax and fiscal reform and its use is being restructured as part of a comprehensive fiscal and economic package designed to stimulate Puerto Rico's economy and address recurring budget deficits. The tax is currently levied at the rate of 5.5%, with a 1.5% additional municipal option. As originally structured, the commonwealth's general fund received 4.5% of the 5.5% sales tax with the remaining 1% dedicated to debt service on the senior lien bonds, which were used to retire extraconstitutional (i.e., appropriation) debt of the commonwealth. As noted in the original analysis of the structure, a key credit feature supporting the 'A+' rating on the senior lien bonds is that the pledge for the senior lien sales tax revenue bonds is the greater of collections from the 1% or a base (minimum) amount payable from all commonwealth sales tax revenues each year. Since debt service in any year is capped at the applicable base amount, debt service on senior lien bonds will be covered by pledged revenues as long as collections from the entire commonwealth sales tax, rather than just the 1%, are sufficient to fund the base amount.

Legislation was passed in early 2009 amending the governing resolution and authorizing COFINA to issue subordinate lien bonds secured by an additional 1.75% of the 5.5% sales tax. The base amount, which was originally $185 million in fiscal 2008, rising 4% per year thereafter, has been increased to $550 million, also rising 4% per year thereafter up to a maximum of $1.85 billion. The 'A' rating on the subordinate lien bonds incorporates coverage by the full 5.5% due to the strong flow of funds. At the start of each fiscal year, revenues from the entire commonwealth sales tax flow directly from Banco Popular de Puerto Rico to the trustee until revenues deposited with the trustee in that year equal the base amount. Only thereafter does the general fund receive its share of collections.

Coverage of annual debt service from current revenues is ample; however, debt service escalates fairly rapidly. Sales tax revenues would have to grow just 0.38% annually to assure 1.0 times (x) coverage of senior lien debt service throughout the life of the bonds and approximately 1.6% annually to assure 1.0x coverage of senior and subordinate lien debt service throughout the life of the bonds by the entire 5.5% tax. Even with escalating debt service and the long final maturity of the bonds, achieving this relatively low level of growth in tax revenues appears reasonable.

The 2009 legislation also strengthened non-impairment language, making it more difficult for the commonwealth to eliminate or divert the sales tax in the future. This is positive for bondholders given that the former Governor of Puerto Rico proposed suspending collection of 4.5% of the 5.5% sales tax in February 2008, shortly after the senior lien bonds were issued. Fitch placed the rating on the senior lien bonds on Negative Watch at that time. The former Governor's proposal was not implemented. The revised resolution includes language specifying that only the non-pledged portion of the sales tax may be lowered or abolished and only if it is replaced with a 'like or comparable security'. To do so, the trustee must be provided written ratings confirmation and written opinions from the Secretary of Justice, bond counsel, and other experts concluding that the Puerto Rico Supreme Court would conclude that the substituted assets/revenues have been validly imposed by law, validly transferred to COFINA, and do not constitute available resources of the commonwealth subject to the clawback provisions for GO debt in the constitution.

Bond proceeds provide deficit financing for fiscal years 2009 and 2010 until the commonwealth's fiscal restructuring plan is fully implemented and new revenues and expenditure reductions bring the budget into balance. Bond proceeds will also be used to repay outstanding extra-constitutional debt of the commonwealth, lessening the burden going forward on the general fund, and will support the commonwealth's efforts to stimulate the local economy.

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16 Jun 2010 | New Issue

Fitch Rates Puerto Rico's $1.84B Subordinate Lien Sales Tax Revs 'A+'

Fitch Ratings-New York-16 June 2010: Fitch Ratings assigns an 'A+' rating to the Puerto Rico Sales Tax Financing Corporation's (COFINA) bonds as follows:

--$1.845 billion sales tax revenue bonds, first subordinate series 2010C, D, and E.

The bonds are expected to sell on or around June 22, 2010 through negotiation, and final sizing will be determined at pricing. The corporation is an independent governmental instrumentality of the commonwealth and affiliate of the Government Development Bank of Puerto Rico (GDB). Fitch also affirms the 'A+' rating on COFINA's $7.3 billion of outstanding first subordinate sales tax revenue bonds and the 'AA-' on $5.2 billion of outstanding senior lien bonds. The Rating Outlook for both the senior and subordinate lien bonds is Stable.

RATING RATIONALE:
--The ratings on the senior and subordinate lien bonds reflect a structure and revenue pledge that insulates the bonds from the strained general fund operations of the commonwealth.
--Bonds have a first claim on all commonwealth sales tax revenues, providing strong current coverage.
--The legal opinions are strong, finding that neither the commonwealth general fund nor commonwealth general obligation (GO) bondholders have a claim on pledged sales tax revenues.
--Enhancements to the bond resolution, in particular a strengthening of non-impairment language, provide some additional protection to bondholders.
--The sales tax base is broad, and the retail environment in Puerto Rico has shown strength even in challenging economic times; however, the collection rate is weak.
--The final maturity of both the senior and subordinate lien bonds is very long, and the program's rising debt service profile requires some growth in revenues to achieve coverage of later maturities. Additional risks include the commonwealth's strained fiscal and economic environment.

KEY RATING DRIVER:
--Evidence of growth in the pledged sales tax so that coverage of increasing debt service requirements remains strong.

SECURITY:
The bonds represent a limited obligation of COFINA, payable from pledged revenues (sales and use tax) subordinate lien to outstanding senior lien bonds.

CREDIT SUMMARY:
The bonds are secured by a portion of the commonwealth's island-wide sales and use tax, which became effective on Nov. 15, 2006. This broad-based tax was instituted as part of Puerto Rico's 2006 tax and fiscal reform, and its use has been restructured as part of a comprehensive fiscal and economic package designed to stimulate Puerto Rico's economy and address recurring budget deficits. The tax is currently levied at the rate of 5.5%, with a 1.5% additional municipal option. As originally structured, the commonwealth's general fund received 4.5% of the 5.5% sales tax with the remaining 1% dedicated to debt service on the senior lien bonds, which were used to retire extra-constitutional (i.e., appropriation) debt of the commonwealth. As noted in the original analysis of the structure, a key credit feature supporting the 'AA-' rating on the senior lien bonds is that the pledge for the senior lien sales tax revenue bonds is the greater of collections from the 1% or a base (minimum) amount payable from all commonwealth sales tax revenues each year. Since debt service in any year is capped at the applicable base amount, debt service on senior lien bonds will be covered by pledged revenues as long as collections from the entire commonwealth sales tax, rather than just the 1%, are sufficient to fund the base amount.

Legislation was passed in early 2009 amending the governing resolution and authorizing COFINA to issue subordinate lien bonds secured by an additional 1.75% of the 5.5% sales tax. The base amount, which was originally $185 million in fiscal 2008, rising 4% per year thereafter, has been increased to $550 million, also rising 4% per year thereafter up to a maximum of $1.85 billion. The 'A+' rating on the subordinate lien bonds incorporates coverage by the full 5.5% due to the strong flow of funds. At the start of each fiscal year, revenues from the entire commonwealth sales tax flow directly from Banco Popular de Puerto Rico, the collection agent, to the trustee until revenues deposited with the trustee in that year equal the base amount. Only thereafter does the general fund receive its share of collections.

The sales tax base is broad and diversified, with more than half derived from retail trade. There is minimal reliance on tourism, and automobiles and motor fuel are excluded. Items subject to sales tax include tangible personal property, taxable services, admission fees and bundled transactions. Due to the effects of the prolonged recession in Puerto Rico, monthly sales tax collections declined on a year-over-year basis in all but one month between fiscal years 2008 and 2009. Sales tax revenues seem to be stabilizing in the second half of fiscal year 2010, although total collections are still far weaker than anticipated. Revenues through April 2010 are down just .5% year-over year with collections in the second half of the year stronger than in the first half.

Coverage of annual debt service from current revenues is ample; however, debt service escalates fairly rapidly. Sales tax revenues would have to grow .2% annually to assure 1.0 times (x) coverage of senior lien debt service throughout the life of the bonds and approximately 1.6% annually to assure 1.0x coverage of senior and subordinate lien debt service throughout the life of the bonds by the entire 5.5% tax. Even with escalating debt service and the long final maturity of the bonds, achieving this relatively low level of growth in tax revenues appears reasonable.

The 2009 legislation also strengthened non-impairment language, making it more difficult for the commonwealth to eliminate or divert the sales tax in the future. The revised resolution includes language specifying that only the non-pledged portion of the sales tax may be lowered or abolished and only if it is replaced with a 'like or comparable security'. To do so, the trustee must be provided written ratings confirmation and written opinions from the Secretary of Justice, bond counsel, and other experts concluding that the Puerto Rico Supreme Court would conclude that the substituted assets/revenues have been validly imposed by law, validly transferred to COFINA, and do not constitute available resources of the commonwealth subject to the clawback provisions for GO debt in the constitution.

The 2010C, D, and E bonds fully leverage the first subordinate revenue stream, as intended when the program was initiated in mid-2009. As with the previous issues, bond proceeds provide deficit financing for fiscal year 2011, in anticipation of the commonwealth's fiscal restructuring plan being fully implemented and new revenues and expenditure reductions bringing the budget into balance. Previous issues were used to repay outstanding extra-constitutional debt of the commonwealth, lessening the burden going forward on the general fund, and supporting the commonwealth's efforts to stimulate the local economy. In addition, a portion of the current offering will be used to retire $700 million of series 2009A, bonds which have a mandatory tender on Aug. 1, 2011 and whose assumed 10% interest rate thereafter has limited some capacity to leverage the revenue stream.

Applicable criteria available on Fitch's web site at 'www.fitchratings.com':
'Tax-Supported Rating Criteria', dated Dec. 21, 2009;
'U.S. State Government Tax-Supported Rating Criteria', dated Dec. 28, 2009.

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Additional information is available at 'www.fitchratings.com'.

16 Jun 2010 | New Issue

Fitch Rates Puerto Rico's $1.84B Subordinate Lien Sales Tax Revs 'A+'

Fitch Ratings-New York-16 June 2010: Fitch Ratings assigns an 'A+' rating to the Puerto Rico Sales Tax Financing Corporation's (COFINA) bonds as follows:

--$1.845 billion sales tax revenue bonds, first subordinate series 2010C, D, and E.

The bonds are expected to sell on or around June 22, 2010 through negotiation, and final sizing will be determined at pricing. The corporation is an independent governmental instrumentality of the commonwealth and affiliate of the Government Development Bank of Puerto Rico (GDB). Fitch also affirms the 'A+' rating on COFINA's $7.3 billion of outstanding first subordinate sales tax revenue bonds and the 'AA-' on $5.2 billion of outstanding senior lien bonds. The Rating Outlook for both the senior and subordinate lien bonds is Stable.

RATING RATIONALE:
--The ratings on the senior and subordinate lien bonds reflect a structure and revenue pledge that insulates the bonds from the strained general fund operations of the commonwealth.
--Bonds have a first claim on all commonwealth sales tax revenues, providing strong current coverage.
--The legal opinions are strong, finding that neither the commonwealth general fund nor commonwealth general obligation (GO) bondholders have a claim on pledged sales tax revenues.
--Enhancements to the bond resolution, in particular a strengthening of non-impairment language, provide some additional protection to bondholders.
--The sales tax base is broad, and the retail environment in Puerto Rico has shown strength even in challenging economic times; however, the collection rate is weak.
--The final maturity of both the senior and subordinate lien bonds is very long, and the program's rising debt service profile requires some growth in revenues to achieve coverage of later maturities. Additional risks include the commonwealth's strained fiscal and economic environment.

KEY RATING DRIVER:
--Evidence of growth in the pledged sales tax so that coverage of increasing debt service requirements remains strong.

SECURITY:
The bonds represent a limited obligation of COFINA, payable from pledged revenues (sales and use tax) subordinate lien to outstanding senior lien bonds.

CREDIT SUMMARY:
The bonds are secured by a portion of the commonwealth's island-wide sales and use tax, which became effective on Nov. 15, 2006. This broad-based tax was instituted as part of Puerto Rico's 2006 tax and fiscal reform, and its use has been restructured as part of a comprehensive fiscal and economic package designed to stimulate Puerto Rico's economy and address recurring budget deficits. The tax is currently levied at the rate of 5.5%, with a 1.5% additional municipal option. As originally structured, the commonwealth's general fund received 4.5% of the 5.5% sales tax with the remaining 1% dedicated to debt service on the senior lien bonds, which were used to retire extra-constitutional (i.e., appropriation) debt of the commonwealth. As noted in the original analysis of the structure, a key credit feature supporting the 'AA-' rating on the senior lien bonds is that the pledge for the senior lien sales tax revenue bonds is the greater of collections from the 1% or a base (minimum) amount payable from all commonwealth sales tax revenues each year. Since debt service in any year is capped at the applicable base amount, debt service on senior lien bonds will be covered by pledged revenues as long as collections from the entire commonwealth sales tax, rather than just the 1%, are sufficient to fund the base amount.

Legislation was passed in early 2009 amending the governing resolution and authorizing COFINA to issue subordinate lien bonds secured by an additional 1.75% of the 5.5% sales tax. The base amount, which was originally $185 million in fiscal 2008, rising 4% per year thereafter, has been increased to $550 million, also rising 4% per year thereafter up to a maximum of $1.85 billion. The 'A+' rating on the subordinate lien bonds incorporates coverage by the full 5.5% due to the strong flow of funds. At the start of each fiscal year, revenues from the entire commonwealth sales tax flow directly from Banco Popular de Puerto Rico, the collection agent, to the trustee until revenues deposited with the trustee in that year equal the base amount. Only thereafter does the general fund receive its share of collections.

The sales tax base is broad and diversified, with more than half derived from retail trade. There is minimal reliance on tourism, and automobiles and motor fuel are excluded. Items subject to sales tax include tangible personal property, taxable services, admission fees and bundled transactions. Due to the effects of the prolonged recession in Puerto Rico, monthly sales tax collections declined on a year-over-year basis in all but one month between fiscal years 2008 and 2009. Sales tax revenues seem to be stabilizing in the second half of fiscal year 2010, although total collections are still far weaker than anticipated. Revenues through April 2010 are down just .5% year-over year with collections in the second half of the year stronger than in the first half.

Coverage of annual debt service from current revenues is ample; however, debt service escalates fairly rapidly. Sales tax revenues would have to grow .2% annually to assure 1.0 times (x) coverage of senior lien debt service throughout the life of the bonds and approximately 1.6% annually to assure 1.0x coverage of senior and subordinate lien debt service throughout the life of the bonds by the entire 5.5% tax. Even with escalating debt service and the long final maturity of the bonds, achieving this relatively low level of growth in tax revenues appears reasonable.

The 2009 legislation also strengthened non-impairment language, making it more difficult for the commonwealth to eliminate or divert the sales tax in the future. The revised resolution includes language specifying that only the non-pledged portion of the sales tax may be lowered or abolished and only if it is replaced with a 'like or comparable security'. To do so, the trustee must be provided written ratings confirmation and written opinions from the Secretary of Justice, bond counsel, and other experts concluding that the Puerto Rico Supreme Court would conclude that the substituted assets/revenues have been validly imposed by law, validly transferred to COFINA, and do not constitute available resources of the commonwealth subject to the clawback provisions for GO debt in the constitution.

The 2010C, D, and E bonds fully leverage the first subordinate revenue stream, as intended when the program was initiated in mid-2009. As with the previous issues, bond proceeds provide deficit financing for fiscal year 2011, in anticipation of the commonwealth's fiscal restructuring plan being fully implemented and new revenues and expenditure reductions bringing the budget into balance. Previous issues were used to repay outstanding extra-constitutional debt of the commonwealth, lessening the burden going forward on the general fund, and supporting the commonwealth's efforts to stimulate the local economy. In addition, a portion of the current offering will be used to retire $700 million of series 2009A, bonds which have a mandatory tender on Aug. 1, 2011 and whose assumed 10% interest rate thereafter has limited some capacity to leverage the revenue stream.

Applicable criteria available on Fitch's web site at 'www.fitchratings.com':
'Tax-Supported Rating Criteria', dated Dec. 21, 2009;
'U.S. State Government Tax-Supported Rating Criteria', dated Dec. 28, 2009.

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09 Jul 2014 | Downgrade

Fitch Downgrades Puerto Rico GO, Sales Tax, Retirement System & Water Revenue Bonds

Fitch Ratings-New York-09 July 2014: Fitch Ratings has downgraded the ratings of various Commonwealth of Puerto Rico bonds as follows:

--$13.4 billion Commonwealth of Puerto Rico GO bonds to 'BB-' from 'BB';

--$6.7 billion Puerto Rico Sales Tax Financing Corporation (COFINA) senior lien sales tax revenue bonds to 'BB-' from 'AA-';

--$8.5 billion COFINA first subordinate lien sales tax revenue bonds to 'BB-' from 'A+';

--$2.9 billion Employees Retirement System of the Commonwealth of Puerto Rico (ERS) pension funding bonds to 'BB-' from 'BB';

--$3.4 billion Puerto Rico Aqueduct and Sewer Authority (PRASA) revenue bonds, series A, B, 2012A and 2012B (senior lien) to 'B+' from 'BB+';

--$658 million PRASA Commonwealth guaranty revenue bonds to 'BB-' from 'BB';

--$1.4 billion Puerto Rico Public Building Authority government facilities revenue bonds guaranteed by the Commonwealth to 'BB-' from 'BB'.

The 'B+' rating on PRASA's senior lien revenue bonds is on Negative Watch in light of near-term liquidity requirements dependent on third-party extension of credit or market access.

All other ratings carry a Negative Rating Outlook. The Rating Outlook indicates the direction a rating is likely to move over a one to two-year period. A Rating Watch indicates that there is a heightened probability of a rating change and the likely direction of such change.

The rating actions follow passage of the Puerto Rico Public Corporation Debt Enforcement and Recovery Act, which establishes a restructuring regime for public corporations that may become insolvent. The Act contemplates two procedures for addressing debt obligations. While they are intended to restore solvency over the long-term, both procedures entail debt restructuring that would trigger suspension of debt payments and preclude the timely payment of principal and interest during the pendency of the proceedings.

Fitch downgraded the rating on $8.7 billion of Puerto Rico Electric Power Authority (PREPA) power revenue bonds to 'CC' on June 26 based on the agency's belief that a debt restructuring or default by the Authority is probable in light of the Act, and given the near-term liquidity demands brought on by maturing bank lines of credit and the required repayment of outstanding loans due in July and August 2014.

Fitch does not rate any other Commonwealth appropriation- or special tax-secured debt.

SECURITY

COMMONWEALTH GO & GUARANTEED: GO bonds are secured by the good faith, credit and taxing power of the Commonwealth of Puerto Rico. Strong legal provisions for GO debt include a constitutional first claim on Commonwealth revenues, including transportation-related and rum excise tax revenues that are dedicated to specific authorities and other bonds. Bonds of the Puerto Rico Public Building Authority and PRASA that are guaranteed by the Commonwealth are backed by the Commonwealth's commitment to draw from any funds available in the treasury. The good faith and credit of the Commonwealth is pledged to any such deficiency payments, resulting in a rating that is the same as the Commonwealth's GO bonds.

COFINA: COFINA bonds have a security interest in and are payable from the Commonwealth's sales and use tax. COFINA is an independent governmental instrumentality of the Commonwealth and affiliate of the Government Development Bank for Puerto Rico (GDB) established by specific legislation.

PRASA: PRASA bonds are secured by a gross lien of all authority revenues related to PRASA's combined water and sewer system, as defined in the amended master agreement of trust (MAT), senior to all other debt or expenses of PRASA. Under the provisions of the restructuring act, the gross lien will not be enforceable and is converted effectively to a net lien similar to that under Chapter 9 of the Federal Bankruptcy Code that applies to special revenue bonds.

EMPLOYEES RETIREMENT SYSTEM: The ERS bonds are a limited, non-recourse obligation of the pension system, payable from and secured by a pledge of statutorily required employer contributions to the system.

KEY RATING DRIVERS

COMMONWEALTH GO & GUARANTEED: The Commonwealth has repeatedly demonstrated its focus on bolstering the fundamentals of its general credit, including through continued progress in closing the general fund budget deficit and limiting exposure to public corporation shortfalls. However, the one-notch rating downgrade reflects marginal deterioration in credit fundamentals despite these efforts, with continued economic weakness, revenue underperformance, and challenges to fiscal stabilization efforts, including reform of the teachers' pension system. Although passage of the Public Corporation Debt Enforcement and Recovery Act does not have a direct negative effect on the GO credit, Fitch will closely monitor how passage of the Act affects future market access and commitment to bondholders. Fitch continues to believe that the ultimate success of efforts to put the Commonwealth's finances on a sustainable path will be driven by the performance of the economy. Maintenance of the Negative Outlook reflects both the continued weakness of economic performance and the significant implementation risks to achieving budget balance.

COFINA: Fitch is lowering its rating on the COFINA bonds to the level of the Commonwealth's general credit. Pursuant to Fitch criteria, the amount of credit given to a special tax security is tempered by the risk that the state, faced with extreme financial stress, could exercise its sovereign powers to the detriment of bondholders. Although COFINA bonds are specifically excluded in the Public Corporation Debt Enforcement and Recovery Act, the passage of the Act has substantially increased Fitch's assessment of the risk that the Commonwealth may take steps to the detriment of COFINA bondholders if the Commonwealth considered that a fiscal emergency and its need to provide essential services required legislative action limiting revenues available to COFINA. Such an action would clearly be subject to challenge by bondholders on grounds of unconstitutional impairment of contract similar to the action currently being pursued by bondholders challenging the Act. While bondholders could ultimately prevail on such claims, a default in payment would precede any such outcome. Fitch's ratings reflect the probability of default and do not consider the possible ultimate recovery on a successful impairments claim. As such, in Fitch's opinion, following the change in law a rating distinction between the GO and COFINA credits is no longer warranted. Fitch does not place COFINA debt below the Commonwealth's GO as the agency believes that if circumstances warranted a shift in COFINA revenues to fund the general government, the GO bonds would be equally likely to default. Similarly, there is no longer a rating distinction between the senior and subordinate COFINA liens, as the legal security of each would warrant a higher rating in the absence of Commonwealth risk factors.

PRASA: The downgrade to 'B+' from 'BB+' reflects the downgrade of the Commonwealth's GO rating as well as the implementation of the Act and resulting weakened legal protections of public corporation bondholders (including PRASA bondholders). Further, the downgrade on PRASA's rating reflects the central government's ability to directly or indirectly exert influence that could have adverse implications to PRASA's operations, pointing to a rating that Fitch currently believes can be no higher than that of the Commonwealth GO. Fitch notes that a one-notch distinction below the Commonwealth GO as well as Negative Watch is warranted despite PRASA's currently sound operating position, due to the market challenges PRASA may face over the coming months as it seeks to refinance certain bank lines of credit (LOC) and procure funds for its largely regulatory-driven capital improvement program (CIP).

EMPLOYEES RETIREMENT SYSTEM: The ERS bonds continue to be rated on par with the Commonwealth's GO rating, reflecting the strong legal obligation for employers to make contributions to the system, the long history of timely payment of pension contributions to the system, satisfactory coverage of debt service requirements by pledged revenues, and the general credit quality of the Commonwealth of Puerto Rico, the largest contributor. Puerto Rico Supreme Court decisions provide protection against the Commonwealth legislature lowering the statutory contribution rate, and required employer contributions to the system have increased in recent years. Given that GO bondholders have a claim on Commonwealth revenues senior to contributions due to the pension systems, the rating on the ERS bonds can be no higher than the Commonwealth GO rating. Like COFINA, the ERS was specifically excluded in the Debt Enforcement and Recovery Act.

RATING SENSITIVITIES

COMMONWEALTH GO & GUARANTEED: Maintenance of the current rating will require stabilization in economic performance and emergence from the long recessionary period. In addition, failure to show continued progress toward structural balance would pressure the rating. Finally, consistent external market access, including for intra-year general fund cashflow borrowing, is important to the stability of the rating.

COFINA: Going forward, the rating on the COFINA bonds will be sensitive to changes in the Commonwealth's GO rating, to which it is now linked. The rating continues to be sensitive to the performance of the pledged sales tax, although for the foreseeable future the GO rating is expected to be the limiting factor.

PRASA: Difficulty or perceived inability to refinance PRASA's outstanding bank LOCs and access funds for its CIP in the coming months would put negative pressure on PRASA's rating. Also, the rating on PRASA's revenue bonds likely will be influenced by movement of the Commonwealth GO rating for the foreseeable future. Finally, deterioration in financial results that threaten PRASA's ability to achieve at least break-even results would likely result in downward pressure on the rating.

EMPLOYEES RETIREMENT SYSTEM: The rating on the ERS bonds is sensitive to changes in the Commonwealth's GO rating, to which it is linked due to the dominant Commonwealth role in making the employer contributions that secure the bonds. The rating is also sensitive to the maintenance of adequate debt service coverage from such contributions.

CREDIT PROFILE

COMMONWEALTH GO & GUARANTEED

The 'BB-' rating on Puerto Rico's GO and GO-guaranteed debt reflects demonstrated weakness in the Puerto Rican economy, very high liabilities including outstanding debt and unfunded pensions, still challenged financial operations, and limited financial flexibility.

The Commonwealth's economy has been in recession since 2006. Although some recent information suggests nascent stabilization, albeit at weak levels, results are mixed. Nonfarm employment has been essentially flat in 2014 after declines in 2013. The unemployment rate of 13.8% for May 2014 compares favorably to a peak of 16.9% in May 2010, but incorporates continued drops in the labor force that have once again accelerated year-over-year in recent months. The rate of decline in GDB's monthly economic activity index has slowed notably this year; however, monthly year-over-year declines persist (down 1.1% in May). Fitch sees the economy as a primary driver of future rating direction for the GO credit.

Following a long history of large budget deficits and a reliance on borrowing to fund operations, the general fund gap has been reduced considerably. Most recently, the enacted fiscal 2015 budget reportedly continues strong efforts to bring general fund spending in line with revenues. Fitch believes achieving and maintaining balance will remain challenging, but the commitment of management to this goal appears strong. On the downside, the Commonwealth has had to grapple with significant underperformance in corporate tax revenues in fiscal 2014. The Commonwealth's above-average reliance on corporate taxes remains a concern, given the potential volatility and concentration inherent in these revenue streams, and management is reportedly considering a substantial revision to the revenue system.

Puerto Rico's bonded debt levels and unfunded pension liabilities are very high relative to U.S. states, with a large amount of outstanding debt issued for deficit financing purposes. Pension funding will remain exceptionally low even with the significant pension reform effort undertaken by the current administration, and the April 2014 Puerto Rico Supreme Court decision finding recent reforms of the teachers' retirement system unconstitutional presented the administration with yet another challenge. The Commonwealth has stated in the past that without reform the teachers retirement system would confront an annual cash flow deficit beginning in fiscal 2020.

Puerto Rico's capital markets access deteriorated steeply in 2013 and the Commonwealth has become increasingly reliant on markets other than traditional municipal investors for external financing. The successful sale of $3.5 billion in GO bonds in March 2014 provided some critical breathing room, but needs remain, including for general fund cashflow borrowing. Reliable external market access is important to long-term stability, and how passage of the Act affects market access will be a significant rating factor for Fitch.

COFINA

Bonds issued by COFINA are secured by the Commonwealth's island-wide sales and use tax, which became effective on Nov. 15, 2006. The tax was instituted as part of Puerto Rico's 2006 tax and fiscal reform, with COFINA created to refinance appropriation debt of the Commonwealth and thereby free up general fund resources. The Commonwealth expanded leveraging of the revenue stream in 2009 as part of a fiscal and economic package designed to stimulate Puerto Rico's economy and address recurring budget deficits.

Annual debt service coverage by pledged revenues is considerable; based on fiscal 2013 revenues, debt service for the year was covered 5.2x for the senior lien and 1.9x for the first subordinate lien. However, the final maturity of the bonds is very long and the program's rising debt service profile requires some growth in revenues to achieve coverage of later maturities, particularly for the first subordinate lien bonds. Fiscal 2013 revenues would be sufficient to fund debt service without growth through 2056 (senior lien) and 2030 (first subordinate lien). These figures do not include the additional 0.5% recently added to the pledged sales tax to boost coverage or the above-trend growth in fiscal 2014 due to base expansion.

Sales tax collections have proven resilient, increasing since the lowest point in the recession even as the economy has remained weak. Collections fell in only one year during the recession, by 4.5% in fiscal 2009. Total sales tax revenue is up 6.5% year-over-year through May 2014. This is below original expectations for the

year, reflecting underperformance of the sales tax changes included in the budget to increase revenues, but still solid growth given continued economic sluggishness.

Strong legal opinions that have been provided with COFINA offerings state that neither the Commonwealth general fund nor Commonwealth GO bondholders have a claim on pledged sales tax revenues until COFINA debt service is fully funded each year. Strong non-impairment language provides some additional assurances to bondholders. Nevertheless, as noted above, in light of the Commonwealth's willingness to change law to the detriment of bondholders with passage of the Public Corporation Debt Enforcement and Recovery Act, Fitch no longer believes that the structure provides sufficient confidence in superior prospects for full and timely payment to warrant a rating above the Commonwealth's GO rating.

PRASA

PRASA faces potential near-term challenges to takeout expiring LOC from Puerto Rican banks and raise significant funds for annual capital expenditures in light of market concerns relating to the Act and PREPA's deteriorating credit . PRASA currently has drawn $200 million on its bank LOCs and is expected to make draws up to the maximum $350 million prior to expiration of the LOCs in March 2015. The LOCs are solely for interim capital financing and PRASA expects to seek capital market access prior to expiration of the LOCs to fix out the LOCs with long-term debt. Simultaneously, PRASA also hopes to raise sufficient monies to fund its remaining fiscal 2015 - 2016 capital needs and possibly fiscal 2017 capital demands as well. Effecting the long-term takeout of the LOCs and generating capital funding resources for some period of time will be critical to removal of the Negative Watch.

PRASA currently is operationally sound after relying on the commonwealth and GDB to address shortfalls in cash flows for the last several years. PRASA's turnaround was the result of an average 67% rate hike enacted for fiscal 2014. For unaudited fiscal 2014, PRASA generated $1.05 billion in revenues (1% under budget) while spending $691 million towards operations (1% under budget) and incurring debt service costs $28 million under budget. Based on these results and excluding the $86 million in expected rate stabilization fund (RSF) transfers, total debt service coverage (DSC) for the year on a net revenue basis was 1.31x compared to a budgeted 1.19x; if expected RSF transfers are deducted from revenues available for debt service then total DSC was 1.0x for the year.

PRASA has updated its projections through fiscal 2018 and these continue to point to self-sufficient operations, generally favorable operating performance and no additional rate hikes. PRASA's assumptions currently appear reasonable but operating results could be negatively influenced from changes in PRASA's operating environment.

For forecasting purposes, PRASA has assumed that the current preferential electricity rate remains in place but that a planned reduction in the rate in fiscal 2017 does not occur. Based on this change in assumption alone, PRASA plans to divert all surplus revenues for fiscals 2014 - 2015 to its RSF and use these funds to offset the higher than expected energy costs beginning in fiscal 2017 in order to maintain 1.0x DSC and forestall additional rate hikes. In PRASA's prior forecast a portion of surplus revenues were to be utilized for pay-go capital purposes, so this change will result in higher borrowing levels than previously anticipated, albeit only modestly. If PREPA rescinds the preferential rates altogether, the forecast could come under further pressure. Officials have indicated that PRASA would pass-through such costs immediately, but this would place added pressure on PRASA's already burdened rate base.

PRASA's projections prudently do not include $37 million in expenditure cuts mandated by Law 66, which should add some cushion to financial results in the coming years. PRASA has included the corresponding reduced revenues from the commonwealth related to the law's requirement that PRASA provide fiscal emergency contributions to the commonwealth by not charging for services. Fitch notes that even with the expenditure reduction offset, the commonwealth's actions to unilaterally demand assistance from PRASA exposes PRASA to future potential fiscal and operational challenges and limits PRASA's credit fundamentals from previous expectations.

EMPLOYEES RETIREMENT SYSTEM

The ERS pension funding bonds are payable from and secured by a pledge of statutorily required employer contributions to the system. Employer contributions are made by the Commonwealth, associated public corporations, and municipalities. There are 215 contributing employers to the system, but the central government represents about half of total contributions to the system and there are strong interrelationships between other contributors and the central government. No retirement system assets or Commonwealth backstop is available to the bonds and bondholders have no claim on employee contributions.

There is a strong legal obligation for employers to make contributions to the retirement system , a long history of timely payment, and legal protections against the legislature making changes to the system that would reduce the system's funded status. Although subject to appropriation, the contributions are appropriated annually along with appropriations for employee compensation and have a legal payment priority after only public debt. Contributions are made along with payroll as part of an employer's payroll cycle (15 days or monthly), with about 50% of total contributions made through the Commonwealth's Department of Treasury payroll system.

The obligation to pay is a percentage of payroll calculation rather than a fixed dollar amount and, as such, revenues are driven by trends in payroll and the required contribution rate. Required employer contributions to the system have increased in recent years, and the Commonwealth is implementing contribution rate increases to address funding deficiencies in the system. By the end of the 10-year ramp-up period, pension contributions will have increased from 9.275% of covered payroll, the statutorily required employer contribution rate in place from 1990 to 2011, to 20.525%, all of which is pledged to bondholders.

The debt structure is somewhat weak with a very long final maturity (50 years) and rising debt service profile. However, pledged revenues provide satisfactory annual coverage of debt service requirements and the required contribution increases will support coverage going forward. In fiscal 2013, the statutory employer contribution of $425 million provided 2.5x coverage of annual debt service and 0.99x coverage of MADS ($429 million in FY 2028).

The rating on the ERS bonds is the same as that assigned to the Commonwealth's GO bonds, as the Commonwealth is the largest employer contributor and contributions have a strong legal priority. However, given that GO bondholders have a claim on Commonwealth revenues senior to contributions due to the pension systems, the rating on the ERS bonds can be no higher than the Commonwealth GO rating.

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Applicable Criteria and Related Research:
--'Fitch Downgrades Puerto Rico Electric Power Auth's Rev Bonds; Maintains Watch Negative' (June 26, 2014);
--'Commonwealth of Puerto Rico' Full Rating Report (March 10, 2014);
--'Fitch Downgrades Puerto Rico Aqueduct & Sewer Auth Senior Revs to 'BB+'; Outlook Remains Negative' (Feb. 18, 2014);
--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Water and Sewer Revenue Bond Rating Criteria' (July 31, 2013).

Applicable Criteria and Related Research:
Commonwealth of Puerto Rico
U.S. State Government Tax-Supported Rating Criteria
U.S. Water and Sewer Revenue Bond Rating Criteria

Additional Disclosure
Solicitation Status

26 Mar 2015 | Downgrade

Fitch Downgrades Puerto Rico's GO and Related Ratings to 'B' on Rating Watch Negative

Fitch Ratings-New York-26 March 2015: Fitch Ratings has downgraded the Commonwealth of Puerto Rico's general obligation (GO) and related debt ratings to 'B' from 'BB-' and placed them on Rating Watch Negative. The complete list of affected credits is included at the end of this release.

Today's action on the GO rating results in a downgrade of the Puerto Rico Aqueduct and Sewer Authority (PRASA) senior lien revenue bonds to 'B' from 'B+' and maintained on Negative Watch. However, it does not affect Fitch's ratings on debt of the Puerto Rico Electric Power Authority (PREPA; rated 'CC', Watch Negative).

The downgrade and Negative Watch reflect elevated concerns regarding both the ability of the Commonwealth to execute a financing to bolster the liquidity cushion of the Government Development Bank (GDB), and thereby that of the Commonwealth, and the willingness to pay on the part of the legislature. These issues are clearly related, as Fitch believes that recent statements and actions by the legislature that would result in an abrogation of the Commonwealth's commitments to general government bondholders have increased the challenges to a successful Puerto Rico Infrastructure Finance Authority (PRIFA) financing and, at a minimum, are likely to result in an increase in already elevated borrowing costs.

SECURITY

GO bonds are secured by the good faith, credit and taxing power of the Commonwealth of Puerto Rico. Strong legal provisions for GO debt include a constitutional first claim on Commonwealth revenues, including transportation-related and rum excise tax revenues that are dedicated to specific authorities and other bonds.

KEY RATING DRIVERS

ELEVATED EXECUTION RISK: The risk that the Commonwealth will not be able to execute a financing to bolster liquidity in the near term has increased in recent months. The financing was delayed due to challenges in securing workable legislative authorization. More recently there has been mounting concern about the legislature's support of general government bondholder security; there are now two different proposals in the legislature that would materially negatively affect bondholder interests.

WILLINGNESS TO PAY AN INCREASING CONCERN: Fitch believes that the Commonwealth has the capacity to make full and timely payments on its GO and related tax-supported debt. However, Fitch notes that willingness to pay, particularly on the part of the Commonwealth's legislature, has quickly become a significant concern. Calls for debt restructuring could increase further in the coming months as part of the debate surrounding tax reform and the fiscal 2016 budget, and thereafter in the campaigns for the 2016 elections.

GDB LIQUIDITY CRITICAL: Given the Commonwealth's very tight fiscal position, GDB liquidity in essence serves as the financial cushion for the general fund. The GDB's liquidity has deteriorated and is projected to decline further. As such, near-term action to increase GDB liquidity is critical.

BUDGET IMPROVED, BUT CHALLENGES REMAIN: Following a long history of significant budget deficits and a reliance on borrowing to fund operations, the general fund gap has been reduced considerably under the current governor. Fitch believes achieving and maintaining balance will remain challenging, including due to ongoing revenue underperformance and increased demands for debt service and pension funding in the budget for the coming fiscal year.

TAX REFORM PRESENTS OPPORTUNITIES AND RISKS: The above-average reliance on corporate taxes in the Commonwealth's current revenue system has been a credit negative, given the potential volatility and concentration inherent in these revenue streams. The legislature is now considering the governor's proposal to substantially revise the tax code to focus on consumption. The tax plan involves substantial risks in both passage and during the implementation period, which may extend over multiple years. Based on legislative reaction to the governor's proposal, it seems likely that the final version of the reform will have significantly different features.

FINANCIAL FLEXIBILITY CONSTRAINED: The Commonwealth's capital markets access deteriorated steeply in 2013, and the market available for the Commonwealth's debt remains limited. Reliable external market access in line with market norms is important to long-term stability.

RATING SENSITIVITIES

INCREASED GDB LIQUIDITY: Fitch expects to resolve the Negative Watch based on the Commonwealth's ability to successfully arrange a sizable PRIFA financing in the coming months or otherwise bolster GDB liquidity.

WILLINGNESS TO PAY: Fitch will downgrade the rating immediately and significantly if legislation proposing to reduce protections afforded to GO and related tax-supported debt progresses in the legislative process or if there is other tangible evidence that the Commonwealth is considering the restructuring of general government debt.

CREDIT PROFILE
The next two months will be critical for the Commonwealth. In addition to the fate of the planned PRIFA financing to improve liquidity, revenue and spending performance in fiscal 2015 and the progress of the governor's tax reform proposal and upcoming budget for fiscal 2016 will be significant.

The Commonwealth once again finds itself in need of significant external financing to support liquidity at a time of still dramatically reduced market access. The planned PRIFA transaction to address this need was originally scheduled for the first half of the fiscal year but was delayed due to numerous roadblocks in the legislature.

Legislation was recently finalized that increases petroleum taxes to support a PRIFA financing of up to $2.9 billion that would be used, in part, to pay off highway authority loans at GDB. As GDB currently has sizable loans outstanding to the Highways and Transportation Authority, a refinancing of this debt would meaningfully bolster liquidity. The PRIFA transaction is expected to have a GO guarantee.

The Commonwealth was able to execute a sizable GO financing in a similar position last year and has since made further progress towards budget balance. However, signs that the legislature may no longer fully support the administration's plan to achieve fiscal stability or its commitments to bondholders are a significant change from last year that could make the financing more difficult to execute. Fitch has also noted extensive discussions in the media advocating broad debt restructuring, another indication of potential deterioration in the Commonwealth's willingness to meet its debt commitments.

Earlier this month, a bill was filed in the legislature that seeks to amend the Commonwealth's constitution to reduce debt protections and allow debt restructuring. Earlier this week, a different proposal was introduced that would amend the Commonwealth's Internal Revenue Code to impose a large tax on the interest generated by bonds issued by Puerto Rico's public corporations and other government entities. Around this same period the legislature approved measures to enhance the marketability of the delayed PRIFA transaction, as well as initiatives to augment fiscal 2015 revenues in support of fiscal balance, sending mixed signals of intent to the market. However, the introduction of two specific proposals in opposition to general government bondholder interests in a short time frame is a key factor in the downgrade to 'B'.

The Commonwealth has a complex debt structure including GO, sales tax, guaranteed, and public corporation debt. The often-cited figure for Puerto Rico's public debt of $71 billion includes not only debt supported by Commonwealth tax revenues but also debt of the electric and water and sewer utilities and other revenue-supported debt that is not the obligation of the central government. GO and GO-guaranteed bonds equal about 25% of total public sector debt as reported by the Commonwealth and sales tax-backed COFINA debt another 20%.

Puerto Rico's bonded debt levels and unfunded pension liabilities are very high relative to U.S. states, though less so when viewed in an international context. A large amount of outstanding debt has been issued for deficit financing purposes. Pension funding will remain exceptionally low even with the significant pension reform effort undertaken by the current administration, and the teachers system is projected to deplete its assets in 2020 in the absence of further reform.

The Commonwealth's general fund revenues are 2.4% ($122 million) below forecast through February, with expenditures reportedly in line with forecast. Thirty-six percent of annual general fund revenues are projected to come in from April through June when the ability to take offsetting action is limited, and last year April revenue performance was well below estimates. As a result, the cushion provided by GDB is particularly important.

Extensive tax reform proposed by the governor in February has proven controversial and political risk is significant. Consistent with expectations, the governor's proposal would focus taxation on consumption by imposing a value-added tax designed to generate substantial additional revenues, including by reducing tax evasion, and support economic growth. At the same time, the governor would reduce income tax rates, eliminate the gross receipts tax, and include reimbursements for lower income levels. The proposal is currently being considered by the legislature, and based on recent comments by legislative leadership it appears that any enacted tax reform will differ from the governor's proposal.

Fitch has noted the risk of the heavy budget reliance on a relatively small number of companies in the current revenue system and the high degree of tax evasion, but the reform involves numerous risks in both passage, with the possibility of politically motivated exemptions watering down its effectiveness, and implementation, with a poor Commonwealth track record in making such changes and estimating their results.

Puerto Rico's economy has been in recession since 2006, and performance remains weak. Fitch believes that the ultimate success of efforts to put the Commonwealth's finances on a sustainable path will be dictated by the performance of the economy, while at the same time efforts to reform public finances could support economic development.

Puerto Rico's status as a Commonwealth of the U.S. and strong linkages to the U.S. economy are credit strengths. Federal transfer payments represented 25% of 2013 personal income, mostly in the form of entitlements such as social security and Medicare. This serves as a stabilizing force but is also illustrative of the comparative weakness of the overall economy.

COMPLETE LIST OF AFFECTED CREDITS
With today's action, Fitch has downgraded and placed on Rating Watch Negative all of the following ratings:

--$13 billion Commonwealth of Puerto Rico GO bonds, downgraded to 'B' from 'BB-'
--$6.7 billion Puerto Rico Sales Tax Financing Corporation (COFINA) senior lien sales tax revenue bonds and $8.5 billion COFINA first subordinate lien sales tax revenue bonds, downgraded to 'B' from 'BB-'

COFINA bonds have a security interest in and are payable from the Commonwealth's sales and use tax. COFINA is an independent governmental instrumentality of the Commonwealth and affiliate of the GDB established by specific legislation. The COFINA bonds are rated at the level of the Commonwealth's general credit. Although COFINA bonds were specifically excluded in the Public Corporation Debt Enforcement and Recovery Act, the passage of the Act substantially increased Fitch's assessment of the risk that the Commonwealth may take steps to the detriment of COFINA bondholders if the Commonwealth considered that a fiscal emergency and its need to provide essential services required legislative action limiting revenues available to COFINA. Fitch does not place COFINA debt below the Commonwealth's GO as the agency believes that if circumstances warranted a shift in COFINA revenues to fund the general government, the GO bonds would be equally likely to default. There is no rating distinction between the senior and subordinate COFINA liens, as the legal security of each would warrant a higher rating in the absence of Commonwealth risk factors.

--$2.9 billion Employees Retirement System of the Commonwealth of Puerto Rico (ERS) pension funding bonds, downgraded to 'B' from 'BB-'

The ERS bonds are a limited, non-recourse obligation of the pension system, payable from and secured by a pledge of statutorily required employer contributions to the system. The rating on the ERS bonds is the same as that assigned to the Commonwealth's GO bonds, as the Commonwealth is the largest employer contributor and contributions have a strong legal priority. Given that GO bondholders have a legal claim on Commonwealth revenues senior to contributions due to the pension systems, the rating on the ERS bonds can be no higher than the Commonwealth GO rating.

--$1.4 billion Puerto Rico Public Building Authority (PBA) government facilities revenue bonds guaranteed by the Commonwealth and rated by Fitch and $658 million PRASA Commonwealth guaranty revenue bonds, downgraded to 'B' from 'BB-'

Bonds of the PBA and PRASA that are guaranteed by the Commonwealth are backed by the Commonwealth's commitment to draw from any funds available in the treasury. The good faith and credit of the Commonwealth is pledged to any such deficiency payments, resulting in a rating that is the same as the Commonwealth's GO bonds.

--$3.4 billion PRASA senior lien revenue bonds, downgraded to 'B' from 'B+', Rating Watch Negative maintained

PRASA's revenue bonds likely will be influenced by movement of the Commonwealth general obligation rating for the foreseeable future given the Commonwealth's historical actions and ability to expose PRASA to potential fiscal and operational challenges.

Fitch does not rate any other appropriation- or special tax-secured debt of the Commonwealth.

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Applicable Criteria and Related Research:
--'Fitch: Execution Risk the Near Term Concern for Puerto Rico; Court Ruling Less Significant' (Feb. 11, 2015);
--'Fitch Maintains Watch Negative on Puerto Rico Aqueduct and Sewer Authority Senior Revs' (Jan. 7, 2015);
--'Fitch Maintains Puerto Rico Electric Power Auth's Rev Bonds on Negative Watch' (Dec. 11, 2014);
--'Fitch: Chapter 9 Extension Would Be a Positive for Puerto Rico' (Aug. 6, 2014);
--'Fitch Downgrades Puerto Rico GO, Sales Tax, Retirement System & Water Revenue Bonds' (July 9, 2014);
--'Commonwealth of Puerto Rico' Full Rating Report (March 10, 2014);
--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'Tax-Supported Rating Criteria' (Aug. 14, 2012).

Applicable Criteria and Related Research:
Commonwealth of Puerto Rico
U.S. State Government Tax-Supported Rating Criteria
Tax-Supported Rating Criteria

Additional Disclosure
Solicitation Status

29 Jun 2015 | Downgrade

Fitch Downgrades Puerto Rico's GO and Related Ratings to 'CC'; Maintains Rating Watch Negative

Fitch Ratings-New York-29 June 2015: Fitch Ratings has downgraded the Commonwealth of Puerto Rico's general obligation (GO) and related debt ratings to 'CC' from 'B'. The ratings remain on Rating Watch Negative. The complete list of affected credits is included at the end of this release.

The downgrade of the ratings to 'CC', which indicates Fitch's belief that default of some kind appears probable, is based on public comments by the governor supporting the broad debt restructuring strategy included in an external report released this morning by GDB.

Fitch no longer believes that the commonwealth views GO debt as worthy of the higher level of protection that to date has been assumed due to the very strong legal pledge and repeated public statements to this effect. As it is difficult at this point to predict the course that the commonwealth will take from here in pursuing debt restructuring, Fitch does not believe it is meaningful to distinguish among the various securities and with today's rating action brings all of the commonwealth debt that is rated by Fitch to 'CC' Rating Watch Negative.

Fitch notes that in recent months the legislature passed a significant tax increase in support of budget balance and now seems to be in the final stages of negotiating a budget that both funds debt service and makes further progress in controlling operating spending. Nevertheless, it now seems clear that this provides only minimal comfort that the commonwealth will make full and timely payment on its obligations to bondholders. In addition, the advocacy of restructuring has further increased the challenges to a successful Puerto Rico Infrastructure Finance Authority (PRIFA) financing to bolster liquidity.

SECURITY
GO bonds are secured by the good faith, credit and taxing power of the commonwealth of Puerto Rico. Strong legal provisions for GO debt include a constitutional first claim on commonwealth revenues, including transportation-related and rum excise tax revenues that are dedicated to specific authorities and other bonds.

RATING SENSITIVITIES
FULL AND TIMELY PAYMENT: Any restructuring that does not result in full and timely payment of the bonds according to the original terms promised would likely result in a further downgrade to 'D'.

NEGOTIATED RESOLUTION: Any negotiated resolution would be evaluated for its effect on bondholders.

LIQUIDITY: The rating could be lowered further if the commonwealth is unable to bolster liquidity.

COMPLETE LIST OF AFFECTED CREDITS
With today's action, Fitch has downgraded to 'CC' and maintains the Rating Watch Negative on all of the following ratings:

--$13 billion Commonwealth of Puerto Rico GO bonds, downgraded to 'CC' from 'B';
--$6.7 billion Puerto Rico Sales Tax Financing Corporation (COFINA) senior lien sales tax revenue bonds and $8.5 billion COFINA first subordinate lien sales tax revenue bonds, downgraded to 'CC' from 'B';
--$2.9 billion Employees Retirement System of the Commonwealth of Puerto Rico (ERS) pension funding bonds, downgraded to 'CC' from 'B';
--$1.4 billion Puerto Rico Public Buildings Authority (PBA) government facilities revenue bonds guaranteed by the Commonwealth and rated by Fitch and $658 million Puerto Rico Aqueduct and Sewer Authority (PRASA) Commonwealth guaranty revenue bonds, downgraded to 'CC' from 'B';
--$3.4 billion PRASA senior lien revenue bonds, downgraded to 'CC' from 'B'.

Today's action does not affect Fitch's ratings on debt of the Puerto Rico Electric Power Authority (PREPA), which has been rated 'CC', Rating Watch Negative since June 26, 2014.

Fitch does not rate any other appropriation- or special tax-secured debt of the commonwealth.

Fitch's public finance ratings do not address the loss given default of the rated liability, focusing instead on the vulnerability to default of the rated liability.

For more information on Fitch's analysis of the GO and related credits, including security information for all related credits, please see 'Fitch Downgrades Puerto Rico's GO and Related Ratings to 'B' on Rating Watch Negative' dated March 26, 2015.

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Applicable Criteria
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
U.S. State Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

11 Dec 2015 | Rating Watch

Fitch Maintains Rating Watch Negative on Puerto Rico Debt

Fitch Ratings-New York-11 December 2015: Fitch Ratings has maintained the Rating Watch Negative on the 'CC' rating for the following Commonwealth of Puerto Rico debt:

--Commonwealth of Puerto Rico GO bonds;
--Puerto Rico Electric Power Authority (PREPA) power revenue bonds;
--Puerto Rico Aqueduct and Sewer Authority (PRASA) senior lien revenue bonds;
--Puerto Rico Sales Tax Financing Corporation (COFINA) senior lien sales tax revenue bonds and first subordinate lien sales tax revenue bonds;
--Employees Retirement System of the Commonwealth of Puerto Rico (ERS) pension funding bonds;
--Puerto Rico Public Buildings Authority (PBA) government facilities revenue bonds guaranteed by the Commonwealth and rated by Fitch;
--PRASA Commonwealth guaranty revenue bonds.

The 'CC' rating indicates Fitch's belief that default of some kind appears probable, with the Rating Watch reflecting the commonwealth's stated intent to restructure its debt in the near term.

The commonwealth continues to seek federal assistance, and numerous proposals are active in the U.S. Congress. These proposals include granting of bankruptcy authorization, financial and bonding support, and increased federal oversight. Fitch will continue to monitor developments at the federal level and evaluate any enacted legislation for its impact on prospects for bondholders.

The recent decision by the U.S. Supreme Court to take up the appeal of lower court rejections of the 2014 restructuring law introduces additional uncertainty, particularly for negotiations with PREPA creditors.

KEY RATING DRIVERS

TAX-SUPPORTED DEBT: The commonwealth's tax-supported bonds (GO & guaranteed, COFINA, and ERS) have been downgraded to the current level as a result of willingness to pay concerns and liquidity challenges. The most recent downgrade on June 29, 2015 was precipitated by public comments made by the governor supporting broad debt restructuring, a strategy the commonwealth has begun to pursue since that time. Although the commonwealth made the decision to make the full debt service payment on GO guaranteed debt on
Dec. 1, it did so while at the same time ordering that revenues budgeted to pay debt service on debt of certain public corporations and instrumentalities (none rated by Fitch) may be redirected. Fitch believes that the political environment and liquidity pressures leave all of the commonwealth's debt vulnerable to default until restructuring plans become clearer.

PREPA: On Sept. 2, 2015, the Authority announced that it had reached a restructuring agreement in principle with certain bondholders holding approximately 35% of the aggregate principal amount of bonds outstanding. The proposal would preclude full and timely payment of the power revenue bonds according to the original terms, if approved by the required holders and executed. Although existing agreements with certain creditors may allow the scheduled debt service payment to be made on Jan. 1, 2016, Fitch remains concerned that PREPA's net cash receipts and existing funds on hand are insufficient to meet longer term working capital, debt service and other funding requirements.

PRASA: PRASA's rating is driven by and currently capped at the commonwealth's GO rating given the commonwealth's ability to affect PRASA's operations materially both directly and indirectly. Commonwealth officials have indicated that PRASA may not be part of a larger restructuring of commonwealth debt, citing the fact that the authority's operations are currently self-sufficient. However, Fitch does not believe it is appropriate to distinguish ratings on the commonwealth's debt without greater clarity on the form any restructuring will take. The authority announced plans to come to market with a $750 million transaction in August 2015 but was not successful in selling those bonds. Cash flows have been severely and negatively affected by delays in the financing.

RATING SENSITIVITIES

COMMONWEALTH DECISIONS: Future rating action will likely be linked to commonwealth decisions. As issuer-specific plans become clearer, downgrades to 'C' would be triggered at the point that default appears inevitable. The commonwealth has declared its debt unpayable in aggregate without distinction among its numerous securities. Therefore, at this stage Fitch does not believe that there is sufficient information available to consider default of any of the specific credits that Fitch rates to be inevitable.

Any negotiated resolution would be evaluated for its effect on bondholders. Any restructuring that does not result in full and timely payment of bonds according to the original terms promised, would likely result in a further downgrade to 'C' upon agreement by the required holders and 'D' upon execution.

Fitch's public finance ratings do not address the loss given default of the rated liability, focusing instead on the vulnerability to default of the rated liability.

CREDIT PROFILE

The commonwealth has a complex debt structure including GO, sales tax, guaranteed, and public corporation debt. The $70 billion reported figure for Puerto Rico's public debt includes not only debt supported by commonwealth tax revenues and legislative appropriations but also debt of PREPA and PRASA and other revenue-supported debt that is not the obligation of the central government. GO and GO-guaranteed bonds equal 26% of total public sector debt as reported by the commonwealth and sales tax-backed COFINA debt another 22%. PREPA, with $9 billion of reported debt outstanding, equals another 13% and PRASA only about 5%.

SECURITY

GO & GUARANTEED BONDS are secured by the good faith, credit and taxing power of the commonwealth of Puerto Rico. Strong legal provisions for GO debt include a constitutional first claim on commonwealth revenues, including transportation-related and rum excise tax revenues that are dedicated to specific authorities and other bonds.

PREPA BONDS are secured by a senior lien on net revenues of the electric system.

PRASA BONDS are secured by a gross lien of all authority revenues related to PRASA's combined water and sewer system. In addition, certain revenue refunding bonds and loans granted to address certain regulatory violations are backed by a commonwealth guarantee.

COFINA BONDS have a security interest in and are payable from commonwealth sales and use tax revenues. COFINA is an independent governmental instrumentality of the commonwealth and affiliate of the GDB established by specific legislation.

ERS BONDS are a limited, non-recourse obligation of the pension system, payable from and secured by a pledge of statutorily required employer contributions to the system.

For additional information on Fitch's analysis of the commonwealth credits please see the following releases:

--'Fitch Rates Puerto Rico Aqueduct & Sewer Authority's 2015A Sr. Revs 'CC'; Maintains Negative Watch' dated Aug. 17, 2015;
--'Fitch Downgrades Puerto Rico's GO and Related Ratings to 'CC'; Maintains Rating Watch Negative' dated June 29, 2015;
--'Fitch Maintains Puerto Rico Electric Power Auth's Rev Bonds on Negative Watch' dated Dec. 11, 2014.

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Related Research:
--'Fitch: Puerto Rico Appropriation Debt Default Highlights Liquidity Strain & Government Priorities' (Aug. 3, 2015);
--'Fitch: Chapter 9 Extension Would Be a Positive for Puerto Rico' (Aug. 6, 2014);
--'Commonwealth of Puerto Rico' Full Rating Report (March 10, 2014).

Fitch recently published an exposure draft of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015). The draft includes a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to fewer than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published by Jan. 20, 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria

within a 12-month period from the final approval date.

Applicable Criteria

Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015)
Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
U.S. Public Power Rating Criteria (pub. 18 May 2015)
U.S. State Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)
U.S. Water and Sewer Revenue Bond Rating Criteria (pub. 03 Sep 2015)

Related Research

Commonwealth of Puerto Rico

Additional Disclosures

Solicitation Status
Endorsement Policy

24 Jun 2016 | Downgrade

Fitch Downgrades Puerto Rico's IDR and Related Ratings to 'C'; Maintains Rating Watch Negative

Fitch Ratings-New York-24 June 2016: Fitch Ratings has downgraded the Commonwealth of Puerto Rico's Issuer Default Rating (IDR) and related debt ratings to 'C' from 'CC'. Fitch maintains the ratings on Rating Watch Negative. A complete list of affected credits is included at the end of this release.

RESTRUCTURING, DEFERRAL OR DEFAULT APPEARS INEVITABLE: The 'C' rating indicates Fitch's belief that default of some kind is inevitable. The breakdown of negotiations between the government and major bondholders, the recent ruling by the Supreme Court on the commonwealth's bankruptcy legislation, and the slow process of federal legislation in support of the Commonwealth indicate that a debt restructuring, deferral, or default has become inevitable. Recently released proposals and counterproposals between the commonwealth and bondholders indicate a distressed debt exchange of some kind is inevitable. Moreover, with sizeable debt service payments due on July 1, 2016, the probability of default on the general obligation debt is high.

NO LEGAL PATH TO DEBT RESTRUCTURING: The commonwealth continues to seek federal assistance and a path toward restructuring its obligations. It has not been successful in its attempt to create a legal construct for bankruptcy. The U.S. Supreme Court ruled on June 13, 2016, that the 2014 Puerto Rico Public Corporation Debt Enforcement and Recovery Act conflicted with federal bankruptcy law and let stand an appeals court ruling invalidating the law. This leaves federal legislation and negotiation with creditors as remaining options for Puerto Rico to restructure its debt and avoid a disorderly default.

FEDERAL LEGISLATION ADVANCING: A bill establishing an oversight board has been passed by the U.S. House of Representatives (the Puerto Rico Oversight, Management and Economic Stability Act or PROMESA) and has moved to the Senate for consideration. The timing of consideration of the bill in the Senate is unknown leaving the commonwealth without a legal framework for default or restructuring. Fitch will continue to monitor developments at the federal level and evaluate any enacted legislation for its impact on prospects for bondholders.

BREAK DOWN OF NEGOTIATIONS: Following passage of PROMESA by the House, private negotiations broke down between the commonwealth and creditors, as ultimately PROMESA would place authority for continued negotiations within the purview of the oversight board. The ending of negotiations and the filing of lawsuits challenging the commonwealth's debt moratorium and fiscal emergency legislation passed in April 2016 make it more likely that an agreement to avoid default will not be reached prior to July 1.

PREPA MODEL POSSIBLE OPTION: There remains the possibility that bondholders and/or bond insurers will provide liquidity to the commonwealth, similar to that provided to Puerto Rico Electric Power Authority, to continue negotiations and avoid a disorderly default in the absence of a legal framework, on July 1.

RATING SENSITIVITIES
NONPAYMENT OR DISTRESSED DEBT EXCHANGE: Failure to meet debt service obligations as scheduled or execution of a distressed debt exchange, where creditors are offered securities with diminished structural or economic terms as compared to existing bonds to avoid a probable payment default would result in a downgrade of the related issuer's IDR to 'RD' and any affected securities to 'D'. Securities that continue to perform will have ratings maintained at 'C'.

For more information on Fitch's treatment of distressed debt exchange, see Fitch's publication titled 'Distressed Debt Exchange' dated June 8, 2016.

SECURITY

GO & GUARANTEED BONDS are secured by the good faith, credit and taxing power of the commonwealth of Puerto Rico. Strong legal provisions for general obligation (GO) debt include a constitutional first claim on commonwealth revenues, including transportation-related and rum excise tax revenues that are dedicated to specific authorities and other bonds.

COFINA BONDS have a security interest in and are payable from commonwealth sales and use tax revenues. COFINA is an independent governmental instrumentality of the commonwealth and affiliate of the GDB established by specific legislation.

ERS BONDS are a limited, non-recourse obligation of the pension system, payable from and secured by a pledge of statutorily required employer contributions to the system.

PRASA 'CC' UNCHANGED
Today's action does not affect Fitch's ratings on debt of the Puerto Rico Aqueduct and Sewer Authority (PRASA), rated 'CC' on Rating Watch Negative. Default, nonetheless, remains probable. The $658 million PRASA commonwealth guaranty revenue bonds will be maintained at the higher PRASA rating of 'CC', Rating Watch Negative.

COMPLETE LIST OF AFFECTED CREDITS
As part of today's action, Fitch has downgraded to 'C' from 'CC' and maintained on Rating Watch Negative all of the following ratings:

--$13 billion Commonwealth of Puerto Rico GO bonds;
--$6.7 billion Puerto Rico Sales Tax Financing Corporation (COFINA) senior lien sales tax revenue bonds and $8.5 billion COFINA first subordinate lien sales tax revenue bonds;
--$2.9 billion Employees Retirement System of the Commonwealth of Puerto Rico (ERS) pension funding bonds;
--$1.4 billion Puerto Rico Public Buildings Authority (PBA) government facilities revenue bonds guaranteed by the Commonwealth.

Fitch does not rate any other appropriation or special tax-secured debt of the commonwealth.

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Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

03 Jul 2017 | Downgrade

Fitch Downgrades PR COFINA Bonds to 'D'

Fitch Ratings-New York-03 July 2017: Fitch Ratings has downgraded the rating on the following bonds issued by the Puerto Rico Sales Tax Financing Corporation (COFINA) to 'D' from 'C':

--$6.3 billion senior lien sales tax revenue bonds;
--$8.9 billion first subordinate lien sales tax revenue bonds.

While COFINA has continued to make transfers to the Trustee, payments to bondholders are not being disbursed pursuant to an order of the U.S. District Court for the District of Puerto Rico. The court has ordered the Trustee to interplead the June 1 payment and any future payments of principal and interest on senior and subordinated COFINA sales tax bonds until a final order of the court resolves the dispute among bondholders and COFINA about whether or not certain events of default have occurred. To date, only bonds with monthly interest payments have been affected; certain bonds have principal payments due on Aug. 1, 2017.

The commonwealth's Issuer Default Rating (IDR) remains 'RD', indicating that the issuer has defaulted on a select class of its debt. Ratings on securities that have not defaulted remain at 'C' Rating Watch Negative.

RATING SENSITIVITIES

The ratings on the bonds have reached the lowest level on Fitch's rating scale. Fitch expects to re-examine the commonwealth's credit profile once debt restructuring plans become clear.

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Applicable Criteria
U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
Solicitation Status
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